COLLEGE AND UNIVERSITY FINANCE

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By

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PREFACE

The general purpose in writing this book has been to lighten the tasks of college administrators and to help make their work more satisfactory, both to themselves and to all those who have at heart the welfare of American colleges. The particular purpose in writing it, in response to numerous requests, has been to put into book form a statement of the principles underlying college accounting and the use and care of trust funds, and to describe a complete, yet simple, system of college accounts which has been tried and found satisfactory. It is hoped that business officers will find the book a help to them in performing their duties more intelligently and efficiently, and that presidents, as well as trustees, will be assisted in discharging their responsibilities. No attempt has been made to discuss educational problems, the text being limited to a discussion of business and financial problems only.

Chapters i to vi are devoted to a discussion of the principles underlying college organization and management and the problems of financial policy peculiar to the endowed college, particular emphasis being placed upon the principles which must be observed in accounting for trust funds and in maintaining them inviolate.

The remaining chapters deal with the principles, methods, and plans to be followed in recording, accounting, and reporting the financial transactions of colleges from the point of view of good practice, and are designed to help officials and employees who carry these responsibilities. In order to render this portion of the book more effective an annual financial report of a supposititious college is included and explained at some length.

In addition to requests which have been received for information concerning a proper financial system, the officers of the General Education Board have been frequently asked to furnish college trustees with a suitable set of by-laws. To supply this demand a set of by-laws containing provisions for the conduct of an endowed college has been drafted and included.

Mention is made of the books of account and records needed, but detailed forms and headings have been studiously avoided. The principles and theory of college accounting, however, have been emphasized with the hope that officials in charge of this work will be stimulated to arrive at solutions best adapted to their own peculiar problems.

I wish to record my sincere appreciation of the many helpful suggestions which have been made by my associates, and especially to acknowledge the aid given by Mr. N. C. Plimpton, Assistant Auditor of the University of Chicago, and Dr. J. Spencer Dickerson, Secretary of the Board of Trustees of the University of Chicago, my colleagues for many years, and by Dr. Wallace Buttrick, Dr. Abraham Flexner, and Mr. H. J. Thorkelson, my associates in the General Education Board.

TREVOR ARNETT

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TABLE OF CONTENTS

CHAPTER	PAGE
I. ORIGIN AND SUPPORT OF COLLEGES AND UNIVERSITIES	1–9
II. RECEIPTS	10–17
Sources	10
Student Fees	10–13
Advance Payment of Fees	13–14
Income on Endowment	14–15
Gifts	15–17
III. DISBURSEMENTS	18–23
Expenses of Operation	19–21
Disbursements of Auxiliary Departments	21–22
Disbursements for Dormitories, Dining-Halls, Bookstores, etc.	22
Expenditures Incurred in Raising Funds	22–23
IV. ENDOWMENT	24–53
Definition	24
Improper Use of the Term "Endowment"	24–26
Source of Endowment	26–27
Unrestricted and Restricted Endowment	27–28
Gifts of Property and Securities to Be Entered at Actual Value	29–30
Book Value of Endowment Assets Should Not Be Changed to Record Estimated Values	30–31
Principles of Investment	32
Suitable Kinds of Investments	32–34
Diversification of Investments	34–35
Investments Purchased Should Be Entered on the Books at Cost	35–37
Funds Invested Separately or as a Whole	37–39

CHAPTER		PAGE
	Constant Care Required	39–41
	Reports to Trustees on Condition of Securities	41–42
	Endowment Funds Should Not Be Loaned to Trustees and Officers	42–43
	Undesirability of Investing Endowment in College Buildings and Land	43–46
	Hypothecation of Endowment Investments	46–47
	Floating Debt	47–49
	Use of Endowment Cash for Current Expenses	49–50
	Funds Subject to Annuity	50–51
	Treatment of Pledges	51
	Procedure to Be Observed in Making Investments	51–52
	Custody of Securities	52–53
V.	PHYSICAL PLANT	54–57
	Definition	54
	Plant to Be Carried at Cost	55–56
	Insurable Value	56
	Depreciation	56–57
VI.	ACCOUNTING	58–95
	Accounting for Funds	58–60
	Record of Funds	60–61
	Funds for Special Purposes	61–63
	Accounting for Plant	63–64
	Accounting for Buildings in Course of Construction	64–66
	Accounting for Current Operations	66–67
	The Budget	67–89
	Budget Income	68–70
	How Estimates of Income Should Be Made	70
	Student Fees	70
	Income from Endowments	70–73
	Estimated Income from Gifts	73–74
	Estimates of Income from Miscellaneous Sources	74–75

CHAPTER PAGE

Comparison of Estimated Income with Income Received Previously 75
Budget Appropriations 75–80
Budget Estimates for the Year—Summary . 80–83
Method of Budget Accounting and Control . 83–85
Budget Revision 85–88
Closing the Budget 88–89
Accounting for Auxiliary Departments . . 89–90
Accounting for Dining-Halls, Dormitories, etc. . 90–91
Accounting for Sundry Receipts and Disbursements of a General Nature 91–92
Balancing and Closing the Ledgers . . . 92–93
Purchasing 93–95

VII. Account Books and Records 96–104
Cash Books 97
Ledgers 97–98
Voucher Register 98–99
Pay-Roll Register 99
Student Accounts 99–101
Loose-Leaf and Bound Books 101
Statistical Records 102–104

VIII. Financial Reports 105–118
Annual 105–115
Contents of Annual Reports 106–115
I. Survey of Results 107
II. The Balance Sheet 107–110
III. Current Operations 110–112
IV. Gifts 112–113
V. Explanatory Statements and Statistics . 113–114
For Trustees and Officers 115–116
Statistical Reports 116–117
Trust Fund Reports 117–118

IX. Annual Report of the Treasurer . . . 119–170
Surplus and Increase in Assets 119–123
Current Operations—College of Liberal Arts . 123–124

CHAPTER		PAGE
	Self-supporting Departments	124–125
	Building Additions and New Plans	125–126
	Gifts	126
	Auditor's Report of Examination	126
	Certificate of Auditor	127
	Table I. Balance Sheet	128–129
	Table II. Surplus and Deficit Account, 1920–21	130
	Table III. College of Liberal Arts—Income and Expense	131–134
	Table IV. Analysis of Income and Expense of College of Liberal Arts	135
	Table V. Dormitories	136
	Table VI. Dining-Halls	137
	Table VII. College Bookstore	138
	Table VIII. School of Music	139
	Table IX. Heat, Light, Power, and Water Account	140
	Table X. Gifts Paid In during the Fiscal Year Ending June 30, 1921	141–143
	Schedule I. Investment of Endowment Funds	144–147
	Schedule II. Investment of Annuity Funds	148
	Schedule III. Buildings, Grounds, and Equipment	149–150
	Schedule IV. Temporary Investments of Building and Equipment Funds	151
	Schedule V. Endowment Funds	152–154
	Schedule VI. Annuities	155–156
	Schedule VII. Building and Equipment Funds	157
	Schedule VIII. Special Funds for Designated Purposes	158
	Schedule IX. General Funds for Designated Purposes	159–161
	Schedule X. Reserves	162
	Schedule XI. Operation and Maintenance of Physical Plant, College of Liberal Arts	163
	Notes on Tables and Schedules in Annual Report	164–170

CHAPTER PAGE

X. College Organization 171–193

The Charter 171–172

The Board of Trustees 172–173

The By-Laws 173–175

Staff Required for Business Department of an Endowed College of Moderate Size 175

The By-Laws of Endowed College, College City, Illinois 176–193

Appendix 194–203

Index 207–212

CHAPTER I

ORIGIN AND SUPPORT OF COLLEGES AND UNIVERSITIES

Colleges and universities of the United States derive part of their support from fees paid by students; the remainder comes from gifts, from income on endowment, or from taxation.[1] While even tax-supported institutions may derive part of their income from endowment,[2] generally speaking, college and university income, aside from student fees, comes so largely either from endowment on the one hand, or from taxes on the other, that the colleges and universities of the United States are usually divided into two classes: first, the endowed institutions; second, the

[1] In Bulletin No. 34 of the 1920 Series, published by the Commissioner of Education, the following interesting table is given showing the relative difference in the proportional distribution of the receipts for colleges, universities, and technical schools as compared with private institutions:

	Percentages	
	Public	Private
Productive funds	3.9	27.7
Government, state, or city	72.9	3.8
Private benefactions	0.7	14.3
Student fees and other sources	22.5	54.2
	100.0	100.0

[2] For example, the budget of the University of California for 1921–22 is $7,692,162, of which $299,233 represents income from endowment, and $70,640 donations. In the budget of the University of Virginia for 1921–22 the estimated income is $821,046, of which $93,194 comes from endowment and $83,331 from gifts and bequests.

tax-supported institutions. The preservation and increase of endowment is so important to the well-being of an endowed college or university that the present volume is primarily written to meet the needs of those who are engaged in managing the financial affairs and developing such institutions. But, as a matter of fact, aside from the manner of obtaining the income, all colleges and universities encounter practically the same accounting and managerial problems. Despite the prominence, therefore, given in this volume to questions connected with endowment, it is hoped that the book may also prove serviceable to persons interested in tax-supported institutions.

Harvard College was the first institution of higher learning in this country, and the religious motive which led to its establishment continued for two centuries to be a powerful factor in the development of higher education in the United States. Even now it exerts a strong influence. The Puritan Fathers, having "builded houses, provided necessaries for their livelihood, reared convenient places for God's worship, and settled the civil government," longed to "advance learning and perpetuate it to posterity, dreading to leave an illiterate ministry to the churches when their present ministers should lie in the dust."[1] Not infrequently the earliest classes of what are now strong and well-equipped colleges were held at the minister's house or at the meeting house, and instruction was given in a few subjects by the minister. As the number of students increased, special quarters were obtained. The minister associated with himself other persons able to share in the instruction, and appealed to the members of his particular denomination for gifts which would enable him to pay the expenses of the

[1] New England's "First Fruits."

growing enterprise. In course of time generous benefactors gave funds to be held in perpetuity, the income only to be used for the maintenance and development of the institution. Only in recent times have institutions been founded with considerable gifts from a single donor or group of donors.

Though Harvard was founded in 1636, and a few other institutions in the seventeenth and eighteenth centuries, the foundation of colleges and universities did not become general until the second quarter of the nineteenth century. One other educational institution was established in the seventeenth century, twenty-one in the eighteenth, twenty-four in the first quarter, eighty-five in the second quarter, one hundred ninety-five in the third quarter, and one hundred forty-five in the last quarter of the nineteenth century up to and including 1897.

Since 1900 the cost of maintaining the endowed college has rapidly increased. In consequence men have in general sought to make financially secure colleges already in existence rather than create new ones. Though the colleges of Oxford and Cambridge, the oldest universities in England, are well endowed, their resources for the most part date back to the Middle Ages. At the present time in the United States more than anywhere else in the world institutions of learning are the recipients of large sums ranging from single gifts running into the millions, down to relatively small amounts contributed by those interested for one reason or another in the success and development of a given college or university. These gifts are sometimes made by individuals, sometimes by religious groups, sometimes gathered through efforts of alumni; not infrequently they come absolutely unexpected. From information gathered from publications of the Commissioner of Education, during the last three decades of the nineteenth century, gifts and bequests to education in the United States approximated in value $250,000,000; during the first decade of the present century they amounted to $216,000,000, and for the seven years of the second decade to $211,000,000. All but a small part of these great amounts was given for higher education.

Nor do these figures tell the whole story, for since 1918 practically all the endowed colleges and universities of the United States have been vigorously engaged in raising additional sums for endowment, largely for the special purpose of providing income with which to pay increased salaries. The rapid rise in the cost of living during the recent world-war threw into bold relief the inadequacy of the salaries paid to college and university teachers. There was for a time no inconsiderable danger that the teaching profession would be seriously damaged. It became necessary not only to bring the salaries back quickly to their purchasing power before the war, but, in justice to the teacher, to place them upon a higher level. Harvard undertook a campaign for $15,000,000, Princeton for $14,000,000, Cornell for $10,000,000. Every possible effort was made to interest and inform the public as to the situation. Mr. John D. Rockefeller gave to the General Education Board the sum of $50,000,000 in the hope that the board would decide "to use the principal as well as the income as promptly and as largely as may seem wise for the purpose of co-operating with higher institutions of learning in raising sums specifically devoted to the increase of teachers' salaries." It is probable that this movement will add another quarter of a billion of dollars to the endowment of American colleges and universities within the next five years.

A few concrete examples will illustrate the rapid development which has just been sketched. Yale University, over two hundred years old, had in 1900 an endowment of $4,942,166. Its endowment is now $25,677,010, and when existing pledges are collected will be $31,759,910. The endowment of Harvard University has increased since 1900 from $12,614,448 to $48,546,156. It will possess over $50,000,000 when its $15,000,000 fund has been fully paid in. Brown University, with $1,252,734 in 1900, now has $5,954,239. The endowment of Amherst College has increased in the same period from $1,679,252 to $4,825,015, and that of Smith College has risen from $707,786 to $4,243,000. Moreover, the funds of the last three colleges will be further increased when the present campaigns are completed. In the Middle West, the West, and the South, the same phenomenon may be observed, though the amounts involved are, with one exception, smaller. Grinnell College in Iowa had in 1900, $597,511 of endowment; in 1921 it had $2,477,483, and when it has succeeded in collecting all outstanding pledges it will have $3,021,580. Carleton College in Minnesota has seen its endowment increase from $422,494 to $1,617,068, and will see it increase to $3,136,632, when all outstanding pledges are collected. The new University of Chicago, founded in 1890, had in 1900 an endowment of $5,938,450, and now possesses an endowment of $31,537,826. These large sums added to endowment by no means represent the total increase in the resources of endowed colleges and universities. There have been correspondingly large sums spent for new buildings and equipment. In order to provide for the larger numbers of students now seeking higher education, it is still necessary to procure additional resources, partly for buildings and equipment, partly for maintenance.

To complete the picture and to show that the problems of accounting and management are not limited to endowed institutions, a brief statement should be made regarding the resources of tax-supported institutions. These institutions, some of which were founded toward the middle of the nineteenth century, have had their main development since the close of the Civil War. They are found chiefly in the western, the middle-western, and the southern states side by side with large or rapidly growing endowed institutions. Deriving their support either from the appropriations of state legislatures or from a fixed state tax, and in part from federal aid, their current annual budgets run in some instances to upward of $5,000,000. The annual budget for 1921–22 for current expenses of the State University of Illinois (exclusive of new buildings) is $4,658,726; of Wisconsin, $4,841,965; of Minnesota, $5,886,739; and of Michigan, $4,406,429. It is obvious that all these institutions, tax-supported and endowed, are large enterprises, the business management of which requires training and capacity of a high order.

It will be conceded that endowed colleges and universities in the United States have not generally developed sound and adequate accounting systems. The reasons for this unfortunate condition are not difficult to discover. For many years these institutions lived a hand-to-mouth existence. Gifts and contributions were at once swallowed up in the payment of salaries or bills not infrequently overdue. A record of cash receipts and disbursements was usually kept, and as a rule little more. In many cases the president did not fully appreciate the need of careful accounting and rarely had at his disposal funds with which to pay a competent bookkeeper. The trustees and friends of the college, though often successful men of affairs, accustomed in their own businesses to rigid financial accounting, trusted completely the college administrators and rarely insisted upon the adoption of strict business methods in the management of college finance. When they did undertake to conduct the financial affairs of the college in a businesslike way, often the best they could do was to impose upon the college an accounting system which, though admirably adapted to the needs of a commercial concern, was not applicable to an educational institution. A college is not a corporation operated for financial profit. Seldom, if ever, does its income even in this day permit the accumulation of a depreciation reserve for replacing buildings. In consequence, a commercial system of accounting which shows with meticulous care accruing income, building depreciation, etc., does not fit the peculiar financial problems encountered in the administration of an endowed institution dependent for its support and expansion upon gifts.

The accounting situation in colleges and universities is therefore a decidedly mixed one. Many institutions still use the primitive methods inherited from their days of poverty and small things. A smaller number, endeavoring to improve matters, have employed systems unsuited to their needs. Relatively few colleges are operated upon the budget system. Illogical classification and unsuitable terminology too often characterize the financial statements and the ledger accounts. Complete balance sheets are rare. Vague conceptions of the nature of endowment are quite common, and capital receipts and expenditures are not carefully distinguished from receipts and expenditures for current purposes. In consequence, the resources are often impaired, and misleading statements are made regarding them. Terms such as "resources," "assets and liabilities," "surplus," which have a definite meaning, are often incorrectly used, with the result that even those connected with these institutions do not fully understand their actual financial situation.

The whole problem is not an altogether simple one to solve. The modern college with its rapidly growing endowment, its largely increased investment in buildings and equipment, and its more and more complicated business problems cannot be efficiently conducted, unless its staff includes someone versed in sound business principles. The officer in question must understand how to superintend the investment of funds, how to account for them, how to make and operate a budget which will tend to keep expenditures within the limits of income, how to prepare a balance sheet which will show, fully and clearly, the financial status of the institution, and finally, he must realize that college operation differs from the operation of a commercial or manufacturing concern. The larger colleges have not hesitated to incur the expense involved in maintaining an efficient financial department, realizing that it is the wisest thing to do, but as a matter of fact it is perhaps even more important that the smaller college, with its limited resources, should be conducted upon the most efficient business basis possible.

During the last few years the author has carefully examined the financial management and accounting of several hundred American colleges and universities. He can testify unreservedly and emphatically to the fact that practically without exception the financial affairs of these institutions are honestly conducted. Differences of opinion and errors of judgment have been, of course, encountered, as they are encountered in the most carefully and competently managed business concerns. But not only are the administrators of the American college honest men, but they go too far as a rule in endeavoring to make a dollar do more than a dollar's worth of service, especially in the matter of salaries. Honesty of conduct, however, is not enough; there must needs be efficiency. Accounting methods employed are often poorly adapted to academic uses, and in their zeal to render public service college administrators have at times involved their institutions in financial difficulties through attempting more than they have the means to perform. Having no proper methods of accounting they are not infrequently surprised to find their institutions in serious financial difficulty. Common defects of academic financing and accounting may therefore be briefly summarized as follows: (1) the use of accounting systems unsuited to college needs, which fail to portray the actual financial status of the institution and, (2) the absence of a budget system which tends to keep expenditures within the limits of income.

CHAPTER II

RECEIPTS

SOURCES

The receipts of endowed colleges are of three principal kinds: (1) student fees, (2) income on endowment, (3) gifts.

Some colleges also derive income from the operation of dormitories, dining-halls, bookstores, and other activities, but in these cases the net income only is available for their educational work. They occasionally receive income from the rental of college buildings, from the sale of obsolete and not needed equipment, and from miscellaneous sources.

STUDENT FEES

Student fees fall into four classes: (1) fees for tuition; (2) fees for laboratory materials and supplies; (3) fees for incidental expenses and library facilities; (4) fees for breakage, damage, and loss.

The fee for tuition is primarily designed to cover what is thought to be the student's share of the cost of furnishing the education which he receives. It is a generally accepted principle that a student should not be required to pay what it costs the college to provide his education, else students with slender resources may be deprived of the advantages of college training. Higher education should be conducted on a democratic basis. No definite practice has been followed by colleges in determining the part of the cost of education which should be borne by the student. Some college administrators have expressed the opinion that tuition fees should cover the amount of salaries paid for instruction, leaving the administrative expenses of the college and the cost of operating and maintaining its physical plant to be provided from other sources. The amount paid by the better-endowed colleges for instruction approximates about one-half the total expense incurred for strictly educational operation.[1] The amount received from tuition fees rarely equals or even approximates the sum paid for instruction. If the opinion stated above were to be adopted as a basis, the tuition fee should equal the salaries paid to teachers divided by the average number of students in attendance. But in fixing its tuition fee the endowed college does not usually proceed upon this principle. It takes other things into consideration. The class of student it attracts, their economic status, the competition of neighboring colleges and of tax-supported institutions, and the desire to offer students of its own denomination the advantages of higher education under conditions which are believed to be most favorable, are more often the deciding factors.

In Bulletin No. 30, 1918,[2] of the Department of the Interior, Bureau of Education, a committee reporting on the resources and standards of colleges of arts and sciences stated that "Institutions should strive to bring their endowment to the point where it will yield at least half the money needed for annual expenses." If this goal were attained, the other half of the annual expense would have to be provided from other sources, of which tuition fees are the chief.[3]

[1] "Strictly educational operation" includes administration, instruction, and the operation and maintenance of the physical plant of the college. The cost of the operation and maintenance of dormitories, dining-halls, and special schools is excluded.

[2] P. 44. [3] Note 1, p. 1.

Almost without exception college administrators prefer to keep tuition fees as low as possible. The increasing costs of college operation since the European war, however, especially for the operation of the physical plant and for the higher salaries which are being paid as a result of the efforts to put the salaries of the faculty on a basis commensurate with the increased cost of living, have impelled them to increase fees. If a fixed relation should exist between salaries and receipts from tuition the tuition fee should be increased as salaries are increased. There can be no sound objection to at least a proportionate increase in tuition fees, especially if provision is made for scholarships and for loan funds to care for worthy students unable to pay the higher rate.

The fee charged for laboratory materials and supplies is ordinarily supposed to be equivalent to their actual cost, including service, and is levied to reimburse the college and to put the courses in science requiring laboratory work financially on a par with those in the humanities.

Colleges also often impose specific fees: a matriculation fee, paid at the time of admission, which is supposed to cover the expense incurred in passing upon entrance credits and enrolling students; a graduation fee, paid when the student receives his degree; a library fee for the use of the library, which is usually devoted to the purchase of books; and an incidental fee to help defray the overhead cost of administration. There may be also athletic fees, locker rental fees, and fees for college concerts.

Breakage and deposit fees are exacted in advance to protect the college from loss arising through loaning students scientific material and keys, and from wilful damage to property. Any portion of the fee unused is refunded to the student at the end of the term.

Fines are imposed for failure to observe rules regarding registration, payment of fees, and the return of books and materials.

ADVANCE PAYMENT OF FEES

Students should be required to pay all fees within the first few days of the quarter or term, or to make satisfactory arrangements for their payment. This rule, announced by most colleges, is more honored in the breach than in the observance. It should, however, be followed strictly, for its observance operates as much to the advantage of the student by training him in good business principles as it benefits the college by the prompt receipt of cash, by eliminating the expense of collection, and by avoiding bad debts. The reason most frequently given for not insisting upon prompt payment is that it might work a hardship on the poor student and might exclude him from college. Experience shows that the enforcement of the rule has not had this effect, for almost without exception a student earnestly desiring an education will in some way obtain the needed money.

The enforcement of the rule is good policy, for the student whose obligations are settled has a more wholesome attitude toward his college than one who is in its debt. If fees are not collected promptly the student is more likely to be captious and critical and offer complaints of various kinds as excuse for non-payment. Experience has shown that it is difficult to collect fees after the term has expired. A comparison between two institutions is instructive: One, a middle-western college, pursues a lenient policy; it does not insist upon prompt payment of fees, but allows its students time in which to pay their tuition, board, rent, and athletic fees, even furnishing several of these items at an immediate outlay of its own cash. It always has a large amount uncollected, a considerable proportion of which is never paid. The University of ———, in the same section, with a very much larger number of needy students, makes its collections in advance, exceptions being extremely rare, and in those cases it takes promissory notes bearing interest. No difficulty in enforcing the rule is experienced by the latter institution. Incidentally, the former teaches its students to be lax, the latter trains them to be prompt and businesslike.

INCOME ON ENDOWMENT

Income on endowment forms a large part of the receipts of an endowed college. It consists of interest on bonds, mortgages, and loans, dividends on stocks, and rentals from real estate in which the endowment funds are invested. It is perhaps impossible to say what particular proportion of the total income should come from endowment, but attempts have been made to prescribe the minimum amount of endowment which a college should possess. For example, the Indiana State Teachers' Training Board places as its standard in this respect for accrediting institutions a productive endowment beyond all indebtedness, of $500,000, or in lieu of this endowment a fixed annual income, independent of all student fees, of not less than $25,000. The Committee of the Federal Bureau of Education, to which reference has been made,[1] held that the "minimum endowment of a college of arts and sciences should be $250,000." The North Central Association of Schools and Colleges requires a minimum endowment of $200,000 before classification is given an institution as an accredited college. This standard was established twenty-five years ago and is recog-

[1] P. 11 of this chapter.

nized now as wholly inadequate. The Association of Colleges and Secondary Schools of the Southern States recently changed its minimum to $500,000. Colleges, however, try to get as large an endowment as possible so as to make their foundation secure and enable them to operate without a deficit.

GIFTS

With the exception of the fees received from students, an endowed college gets its income either from gifts and grants or from funds previously donated. Funds for endowment, for buildings, for purchase of land, for additional equipment and books, and provision for deficits, are procured through gifts and bequests. Gifts fall naturally into two classes: those which add to the permanent assets of the college, and those which are designed for current uses. They may be made by individuals, by groups of individuals and classes, or by synods, conventions, and conferences, but, whatever the source, they should be suitably acknowledged and properly recorded. Those which add to the permanent assets should be recorded among the capital assets, and those available for current expenses should be recorded among thė current receipts.

Since endowed colleges depend so largely upon gifts for their maintenance and expansion, special efforts are made to stimulate them. In addition to the work which the president of the college does in this direction, an officer is often regularly employed, called a field agent or financial secretary. He visits the alumni and friends of the college, keeps them informed of its needs, and urges them to contribute to its funds. He conducts a campaign of education through correspondence, publications, and news items. Special emphasis is now being placed upon annual contributions for current expenses. Many alumni and friends who cannot give a large sum for endowment are often willing to make annual contributions. However, uncertainty as to whether these gifts will be continued year after year makes it difficult for the college to determine its financial policy in advance, whereas if its needs are met by endowment, it knows precisely on what it can count. On the other hand, dependence on its constituency for annual contributions may keep it in closer touch with its friends and may discover others, while requests for funds may add new students as well as income. Since the college needs income it resorts to that method which to the fullest extent and in the most dependable manner provides additions to its current funds.

Gifts for current purposes are most useful if no particular conditions are attached to them. Donors often make gifts for prizes, lectures, or other restricted purposes, which, however useful, do not help the college to meet its pressing regular expenses. Moreover, it frequently happens that the acceptance of a gift for a special object involves the college in additional expense not covered by the amount of the gift. If so, provision should be made for meeting the additional expense before accepting the gift. Gifts for recitation buildings, libraries, and laboratories are examples. The upkeep and maintenance of such buildings cause an annual expense which often requires the income of a fund nearly equal to the original gift. In this sense every such building is a liability as well as an asset. Before accepting a gift for such a purpose—at any rate before taking any action toward the end contemplated by the gift—the college should obtain an endowment to provide for the annual expenses which its acceptance involves, or assure itself that in some other way it will have ample income for the purpose.

Besides the efforts made by the college authorities to obtain contributions, alumni maintain organizations for the same object. Classes and individuals are urged to be constant in helping their Alma Mater, especially by making annual contributions. Alumni often reserve the right to designate the objects to which their gifts shall be applied, but these, like other gifts, are most useful if absolutely unrestricted. An excellent example of the way in which alumni may assist by annual contributions is furnished by Yale University, whose graduates contribute yearly, through organized class effort, approximately half a million dollars to the University treasury. This is equivalent to the income at 5 per cent on an endowment of $10,000,000. Nor does the graduate feel that his annual subscription, large or small, finally discharges his obligation to his Alma Mater. On the contrary, giving to his college, once established as a habit, is likely to become a passion, as well as a duty. Large gifts and bequests may ultimately result from annual contributions, which, small at first, become larger as the graduates prosper.

CHAPTER III

DISBURSEMENTS

A college expends its money for two general purposes: (1) for land, buildings, and equipment; and (2) for expenses of operation.

Disbursements for the first purpose are sometimes designated as "Capital Expenditures" because they are made for those material and enduring objects which in a factory or manufacturing establishment would be called "Plant or Fixed Assets." Expenditures for a manufacturing plant are made to enable it to function efficiently and yield the greatest financial return on the capital invested; in like manner the expenditures for a college plant should be made to enable it to function adequately from the point of view of need, convenience, economy of operation, and, within reason, artistic impression.[1] Outlays on a college plant not warranted by the tests mentioned above are out of place for they involve the college in unnecessary expense. They are foreign to the purposes for which the college exists. Disbursements for capital purposes should be kept distinct from those for expenses of

[1] "Within reason" is used advisedly. It would be most desirable educationally if, in providing grounds and buildings, colleges could pay as much attention to beauty as they pay to education. But buildings, grounds, and their upkeep are so expensive that, unless administrators are cautious, educational work may be crippled by the cost of constructing and maintaining beautiful buildings. ——— College, in the Middle South, now spends the entire income of its endowment in keeping up the new plant which it has lately built, and even this will not suffice when, with the progress of time, repairs become necessary. There is nothing to be said in defense of the tasteless, not to say ugly, structures put up by the colleges of previous generations, but the pendulum may swing too far in the opposite direction. A college is a school; it needs money for salaries, apparatus, and books, and artists, architects, and designers should not be permitted to forget this fundamental fact.

operation, and should be provided for before they are incurred.

Disbursements for capital purposes are made for new buildings, furniture, improvements and additions to buildings, new roads and walks, new connections for heat and power plant, tunnels and mains. For all such disbursements, when not provided from current income, capital receipts must be procured.

The question is often asked: What distinction should be made between building equipment and equipment for the scientific departments using the building? Difficulty naturally arises at the point where the individual characteristics of each are least prominent. As a rule "building equipment" refers to furniture and permanent equipment which must be included in the building, whatever department may use it, and "scientific equipment" means that apparatus and equipment which must be specially provided for the needs of the scientific departments.

An endowed college makes capital disbursements for the purchase of investments for its endowment funds, but as these purchases are usually made to replace other investments which have been paid they do not add to the material resources of the college. Their treatment and nature will be fully discussed in the chapter on endowment and need no further elucidation here.

EXPENSES OF OPERATION

The second purpose for which expenditures of a college are made is for the current operation of the institution. These expenditures may be divided into four classes: (1) those incurred in the operation of the college as such; (2) those incurred in the operation of auxiliary departments;

(3) those incurred in the operation of dormitories, dining-halls, bookstores, etc.; (4) those incurred in raising funds.

In financial reports college officers do not always separate the expenses of operation in the manner described above, but include all in one statement. In such cases it is difficult, not to say impossible, to ascertain what is the cost of college operation for strictly educational purposes, and to compare such cost with the cost of another college of the same size or character which may not operate a dining-hall or book-store, or may not have dormitories. If the classification which is here suggested is followed, the cost of the educational work of the college will be at once apparent, and this cost may be readily compared with similar costs elsewhere.

Expenses of Class 1 are those which are common to all colleges and should be included in the college budget. They may be termed "Budget Expenditures," and fall into three main groups: (1) administration and general, (2) operation and maintenance of the physical plant, (3) instruction.

The first group includes all expenses incurred in the administration of the college as a whole, viz.: the cost of the administrative offices, and the other general overhead expenses. The second group, operation and maintenance of the physical plant, embraces those expenditures made to maintain and preserve the college buildings and grounds and make them available for the use of the administrative and educational departments. The expenditures in this group are for: (*a*) superintendence; (*b*) janitors; (*c*) heating, lighting, and water; (*d*) repairs; (*e*) care of grounds; (*f*) insurance; (*g*) materials and supplies. The expense of maintaining buildings used for dormitories, dining-halls, and the like should not be included in this group as a part of Class 1 because their operation is not a part of the educational work of the college. The third group of educational expenses, instructional, embraces the cost of furnishing instruction to the students, the main object of the college. These expenditures are for (*a*) salaries of instructional staff, (*b*) equipment and books for educational departments, (*c*) supplies and expenses of educational departments. The classification and arrangement of the educational expenses in the budget, and the principles to be followed in estimating and operating the budget are described in the chapter on accounting.[1]

DISBURSEMENTS OF AUXILIARY DEPARTMENTS

In addition to the work which is carried on by colleges functioning as colleges of arts, literature, and science, they at times maintain auxiliary departments, e.g., of music and of the fine arts. In very rare instances are these departments conducted as part of the educational work of the college. In nearly all cases a part only of the work in them is counted toward the regular college degree, and the departments are supposed or expected (particularly at the outset) to be self-supporting—sometimes even to yield a profit. To know exactly what happens, whether the department operates at a loss, sustains itself, or yields a profit, an accurate and separate accounting should be kept of its receipts and expenditures. The cost of materials and services furnished by the college from its storerooms and central power plant must be included. The departments in question should be charged rental for the use of college buildings, and depreciation to provide for the replacement of the buildings and equipment used.

[1] P. 67.

Expenses of these departments are of the same general character as those of the college of arts, and should be controlled by the same budget method. A separate budget, however, should be made for each.

DISBURSEMENTS FOR DORMITORIES, DINING-HALLS, BOOKSTORES, ETC.

The third main division of expenses of operation includes the cost of operating those departments which, though not forming a part of the strictly educational work of the college, may yet be necessary from the point of view of comfort and convenience of students and faculty. Dining-halls, dormitories, and bookstores are examples. The cost of operation of each of these should be kept in separate accounts apart from all other operating costs of the college, first, because these departments are conducted usually on the theory that they should pay their own way, and unless a strict and complete accounting is kept, that theory cannot be proved; second, because the cost of education is unknown if these quasi-business operations are not kept strictly separate from it. Expenditures for these departments are made for services, materials, supplies, rentals, repairs, renewals, replacements, and depreciation.

EXPENDITURES INCURRED IN RAISING FUNDS

Expenses involved in raising money to meet the cost of current operation are part of the general expense of the college and should be included in the college budget. An endowed college, however, is usually seeking funds for new buildings, equipment, additional campus, and larger endowment, and may incur considerable expense in so doing. Expenditures are made for the salaries and traveling expenses of solicitors, for printing and publishing bulletins and pamphlets, and for entertainment. These expenditures are often erroneously charged to the current expenses of the college. Sometimes they are deducted from the amount raised. When this custom is followed a statement should be made to that effect when the fund is being solicited to prevent misunderstanding. The best way to provide for these expenses is to raise a fund especially for that purpose.

CHAPTER IV

ENDOWMENT

Since endowment provides a large part of the income of an endowed college and gives its name to the class, an exposition of the manner in which such funds should be administered and preserved is presented in this chapter.

DEFINITION

College endowment is a fund, the principal of which is invested and kept inviolate and only the income used for the general support of the college, or for some specific object in connection with it. The fund thus established is sacred and should not be touched or encroached upon for any object whatsoever; its income alone is available. Unless this fundamental fact is understood and respected, the endowed college is built upon an insecure foundation. A college has no right, moral or legal, to "borrow" from its endowment, to hypothecate endowment securities, to "invest" endowment in college buildings and equipment, or, in fact, to do anything with endowment except to invest it so that it will produce a certain and steady income.

IMPROPER USE OF THE TERM "ENDOWMENT"

It is amazing to find how rarely the term "endowment" is used in its correct sense. This would be a trivial matter if it were simply a matter of definition. But, as the reader will soon perceive, unless the term "endowment" is properly understood by the trustees and officers, the financial policy of an endowed college may go seriously astray. Endowed colleges, conducted by thoroughly honest and well-meaning men, have at times been seriously embarrassed or wrecked because those in charge did not know what endowment is and what principles must be adhered to in managing trust funds. College authorities frequently use the term "endowment" in a wrong sense, including under that name sums of money given for college buildings and land. A donation for the erection of a recitation building is not endowment, for, in the nature of things, the structure cannot last forever, and is in itself not income-producing. According to the definition of endowment here given—namely: *a fund which shall be maintained inviolate, the income of which shall alone be used*—gifts for the purposes mentioned above are not "endowment." Some college administrators include in endowment certain funds, the principal of which, as well as the income, may be used. If the principal is ever used, the fund of course is but temporary, and hence is not endowment. It is better to call these funds "Funds for Special Purposes," and thus differentiate them from endowment.

Colleges often receive gifts and bequests without condition. In such instances the trustees are warranted in using the principal, as well as the income, as they choose. They often decide to add these gifts and bequests to endowment, and then later justify the use of endowment as collateral for current loans, for the erection of buildings, or for some other object, on the ground that it includes sums which were given without restriction as to use of principal. When this occurs the finances of the college are inextricably mixed, the inviolability of actual endowment is lost and the amount used in the manner described frequently exceeds the amount of unconditional funds which were included. To obviate any such disaster, and to preserve rigidly the sacredness of real endowment, under no circumstances should any such donation be included in endowment unless it has been set aside as endowment by deliberate action of the trustees. Such action should be irrevocable, and the sum so included should henceforth be treated in the same manner as sums originally given as endowment. "Once endowment, always endowment," is the only safe and clear rule. Until such time as the trustees shall have decided to place an unrestricted fund irrevocably in endowment it should be carried as an unconditional general fund, and its assets should be included among the general assets of the college. By keeping unrestricted general funds in a separate account, the trustees can always know what sum is available for collateral for loans, or for any other college need.

There is another reason for carrying the fund separate: If the amount of endowment is shown at one figure in one annual report and placed at a smaller sum in succeeding reports because certain items which were first included in endowment have been withdrawn and devoted to other objects (and especially if the reports are not clear as to what the objects are), the friends and supporters of the college may get an erroneous impression of the care with which endowment is safeguarded, and their attitude toward the college may thereby be unfavorably affected.

SOURCE OF ENDOWMENT

Colleges obtain endowment from two general sources: from persons who give spontaneously and from those who are solicited. Alumni make gifts and bequests to show their love and appreciation of their Alma Mater. Many others contribute generously to college endowment because they believe that college training is of great value as a preparation for a useful life. Some of these persons, not having attended college themselves, may desire to make it possible for poor students, situated as they once were, to go to college. The large number of persons who aid colleges spontaneously is one of the most interesting phenomena of the present century, and speaks eloquently for the high regard in which college training is held.

The burden placed upon colleges by the increasing cost of operation, by the advancing standard of education, by the desire to make them of the widest possible service, and the unwillingness to shut the door of opportunity to any worthy student by the imposition of high fees, have led to the solicitation of endowment not only from those who may be naturally interested, but from all persons of means. Alumni organizations and associations urge trustees, alumni, and former students to make gifts for endowment, and people living in the college town and territory are asked to assist on the grounds of local pride. Since many of the endowed colleges were established by and are affiliated with religious denominations for the express purpose of surrounding the students with a religious atmosphere, members of these denominations are appealed to for aid on the ground of religious sympathy and obligation.

UNRESTRICTED AND RESTRICTED ENDOWMENT

Endowments fall into two principal classes: unrestricted, or general, and restricted, or special. The income from unrestricted endowment may be used for any of the legitimate needs of the college. The income from restricted endowment may be used only for the express purpose for which the fund was given. In the case of restricted endowment care must be taken to see that any income not used during the year is carried forward to the next year's account so as to be applied to the specific purpose. College officers are not always careful in this particular, especially where the specific purpose forms a part of some large item of expense, such as instruction.

Unrestricted endowment is most acceptable because its income can be used in accordance with changing conditions, which must arise in the course of long periods of time, and which at present are coming with startling rapidity. Trustees should exercise caution in accepting gifts containing conditions which may become difficult to fulfil, and should try to persuade prospective donors to make gifts free from restriction. As a rule, suggestions are welcomed by donors, and they willingly make gifts in harmony with the established policy of the college, especially if it has been well defined and declared.

Endowment which provides for chairs or departments which are a part of the regular work of the college, such as chairs in English, mathematics, and history, is next in value. Provisions for these chairs sets free a corresponding amount of unrestricted income which can be used for other purposes. Endowment for unusual subjects may be interesting and useful, but does not help the college to carry on its indispensable work. Terms of restricted endowment may become obsolete, and colleges may not modify or change conditions imposed by the donor unless permitted to do so by a court of chancery.[1]

[1] The following explanation of the doctrine of *cy pres* has been furnished by the Counsel of the University of Chicago: "Under the doctrine of *cy pres* courts have granted permission to apply gifts in a manner differing from the expressed conditions. This doctrine has been described in Bispham's *Principles of Equity* as follows:

"'The *cy pres* doctrine is one under which courts of chancery act, when a gift for charitable uses cannot be applied according to the exact intention of the donor. In

GIFTS OF PROPERTY AND SECURITIES TO BE ENTERED AT ACTUAL VALUE

Gifts for endowment may be made in cash, securities, or any property possessing value. Preservation of the principal being a most essential feature of endowment, gifts of securities and property should be accepted at their market value at the date of gift. If that value cannot be ascertained readily, a competent person, or persons, should be asked to estimate their value as of that date. Gifts for endowment are sometimes accepted at a value placed upon them by the donor, or at par, when such valuation exceeds their real worth. Should the college later dispose of the property for a smaller sum, the loss would cause a reduction in book value of endowment, and might lead to the erroneous impression that endowment had been dissipated. Even while the college retains the property, the inflated value

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such cases the courts will apply the gift, as nearly as possible (*cy pres*), in conformity with the presumed general intention of the donor; for it is an established maxim in the interpretation of wills, that a court is bound to carry the will into effect if it can see a general intention consistent with the rules of law, even if the particular mode or manner pointed out by the testator cannot be followed. Good illustrations of this doctrine will be found in the Balliol College case (Att. Gen. *v.* Guise, 2 Vern. 266; Att. Gen. *v.* Balliol Coll., 9 Mod. 407; Att. Gen. *v.* Glasgow Coll., 2 Collyer, 665; 1 H.L. Cas. 800), and in the Ironmongers' Case.' (Att.-Gen. *v.* Ironmongers Co., Cr. and Ph. 208).

"The *cy pres* doctrine as commonly understood has two features. The first is the right to exercise the prerogative authority, whereby a court is enabled to deal with a bequest to a charitable use having no particular purpose, as a bequest to charity generally, treating the purpose as the legatee or as a bequest for an illegal purpose, or some purpose impossible of execution for some reason. The other is the right by liberal rules of construction, to deal with a trust having a designated purpose, though in general terms, and enforce it within the limits of such purpose, supplying the trustee if necessary.

"Again I quote from Bispham, this a statement of the rules of the different states.

"'It is, nevertheless, true that the *cy pres* doctrine has in many cases in the United States been regarded with considerable disfavor.

"'In Fontain *v.* Ravenel (17 How. 369) the Supreme Court of the United States seemed to be opposed to the *cy pres* doctrine; but in Lorings *v.* Marsh (6 Wall. 337) and the Mormon Church Case (136 U.S. 1) the doctrine was approved.

"'In North Carolina, Connecticut, Indiana, Iowa, Alabama, and Wisconsin the *cy pres* doctrine has been repudiated. In Pennsylvania, although the principles of at which it is carried on the books causes the income return to appear to be relatively low and gives the impression of poor business management.

BOOK VALUE OF ENDOWMENT ASSETS SHOULD NOT BE CHANGED TO RECORD ESTIMATED VALUES

Real estate is often given for endowment, which, in the course of time, increases in value because of changing conditions. Even in these, as in other cases, it should be carried on the books at its real value at the time when it was given, and no change should be made except to record expenditures for additions and improvements, which increase the value of the property. Buildings will of course depreciate in the course of time and become valueless. Provision for the

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the statute of Elizabeth were said to have been adopted, the *cy pres* doctrine was rejected; but the doctrine to a limited extent was subsequently introduced by statute [NOTE.—But it seems the doctrine now exists in all its fullness]. In Maryland and Virginia neither the statute of Elizabeth nor its principles are in force, and charities are treated as ordinary trusts; and the same conclusion has at last been reached in New York, South Carolina, West Virginia, and Wisconsin; and in Minnesota, with certain exceptions.

"'But in many of the states, on the other hand, the *cy pres* doctrine has been received with more favor. In all of the New England states it has been directly countenanced or left an open question. In Missouri and Illinois the doctrine has been approved. In New Jersey the question has not been decided, although it has been said that a bequest that would be enforced in England might not be carried into effect in that state, on the ground of the indefiniteness of its objects, or the impracticability of its exact execution.

"'There seems, indeed, to be no valid reason why the judicial *cy pres* doctrine, as explained in Jackson *v.* Phillips, should not be approved in all those states wherein the statute of Elizabeth has been decided to be in force, or where its principles have been adopted by the law of the state; in other words, in those states where the doctrine that indefiniteness of the object is no objection to a trust, provided it is for a charity, is recognized. This is the case in many of the states of the Union.'

"The case of Jackson *v.* Phillips (14 Allen 571) referred to above was one in which one of the trusts in the will was for the circulation of literature to create a public sentiment to put an end to negro slavery in the states. After the death of the testator, but while the will was being litigated, slavery was abolished by Constitutional amendment. The designated purpose having failed, the fund was applied to the New England Branch of the American Freedmen's Union Commission."

diminishing value must be made each year by charging its amount against income so as to keep endowment intact.

Cognizance should not be taken of any increase in value in real estate not actually realized by sale. When the property is sold and the profit actually in hand, the endowment should be augmented by the amount of the profit. The figures on the books should at all times represent actual transactions and should not be modified to record estimates of changing value. This rule applies not only to gifts of real estate, but also to gifts of securities, and to investments made by the college itself. There is no valid reason for increasing the book value of endowment investments, but, where a college decides to mark up the value of property or securities the amount of estimated increase should be added to the funds to which the securities or property belong. Under no circumstances should an increase be made in the book value of investments of endowment funds to replace endowment used for other purposes. For example, if John Doe gives a security valued at $10,000, whose market value later increases to $30,000, the college should not write up the book value of the security so as to account for the use of $20,000 endowment for current expenses. If the book value is written up the amount to the credit of endowment should be correspondingly increased. A well-known university had recently among its investments a city building carried at a value of a million dollars. The building had cost the university about six hundred thousand dollars, but its book value had been changed from time to time without any increase in the university's endowment, while the rate of income on the property for the past three years had averaged less than 3 per cent, and no charge had been made for depreciation.

PRINCIPLES OF INVESTMENT

As endowments are established to provide permanent regular income, it is important that they be invested in such a way that the income shall be assured and the principal kept intact. Safety of principal is the first consideration; otherwise, the permanency of the income may be endangered. The size of the income, though important, is secondary. The scale of expenditures expands quickly to equal an increasing income, but does not respond easily when income diminishes. It is, therefore, in the long run better to have a stable income, even if somewhat smaller than might be obtained temporarily, than to enjoy a larger income for a short period and later to be obliged to reduce expenses because of its curtailment. To safeguard the principal of endowment, and at the same time to get a good income, is one of the chief problems of the trustees of an endowed college. Many states have passed laws describing and limiting the kinds of investments in which trust funds held by banks, trust companies, and others may be placed. These laws aim to maintain the body of the trust, and yet realize the largest income consistent with security. So far as I know, trustees of endowed colleges are not required to conform to the provisions of these laws in investing endowment, and under some charters they are especially exempted. But they should, nevertheless, familiarize themselves with them and be able fully to justify investments which do not harmonize with the trust laws.[1]

SUITABLE KINDS OF INVESTMENTS

It is not easy to specify in detail the kinds of investments which colleges should make. At best only general principles can be laid down.

[1] See Appendix for Wisconsin Trust Laws as to Investments for Trust Funds.

Investments of a purely speculative character, such as stocks of mining corporations and of new companies whose stability has not been demonstrated, are not suitable. As a rule, common stocks should be avoided. If any exception is made, it should be in favor of well-established companies with a large margin of surplus and a regular dividend record covering a long period. Carefully selected first mortgage bonds and real estate first mortgages on improved farms in good localities, preferably in the same state as the college, or in contiguous states, and first mortgages on city property where the college is located, or in nearby cities, make proper investments. The proximity of the property mortgaged makes it easier to learn its value and to note any circumstances which might lead to its depreciation. Since real estate mortgages usually run from three to five years, no serious depreciation in value should occur in that time which was not foreseen by the trustees. Loans secured by mortgages should not exceed 50 to 60 per cent of the appraised value of the property. The value should be established by personal investigation by the college authorities, assisted, if necessary, by a person skilled in real estate values. The title should be examined by an attorney, and no loan should be made unless the title is clear, preferably guaranteed. It is better not to loan on property whose value depends upon its use for a special purpose or business, unless the loan is proportionate to the value which the property would have for any other purpose whatsoever. An example of making loans on property used for a special purpose is furnished by ——— College, which has loaned the greater part of its endowment to churches and hospitals belonging to the denomination which supports the college. These loans, being of a special character, are not readily negotiable. If they are not paid when due, or if the interest becomes delinquent, the college has not the usual recourse, but from considerations of policy must continue to carry them. Inducement to make loans of this kind was doubtless very great, but if the college had incorporated in its by-laws a rule prohibiting it from loaning money on property used for special purposes it would have been protected against the difficulties inherent in the situation in which it now finds itself.

DIVERSIFICATION OF INVESTMENTS

College funds should be invested to provide suitable diversification as to kinds and to territory in which the investments are located. Securities purchased should be representative of different businesses and industries so that if any are affected by depression, strikes, or untoward circumstances, the entire endowment income will not suffer. A historic instance which should serve as a warning is furnished by the early history of Johns Hopkins University. Its original endowment was given by Mr. Hopkins in the form of Baltimore & Ohio Railroad stock—so valuable at the time and seemingly so secure that in a letter Mr. Hopkins recommended that his trustees should hold and protect it. Within a few years financial disaster overtook the railroad and, as a result, the university was for years seriously crippled. Ultimately, it parted with the securities in question at a considerable loss. The Johns Hopkins Hospital, founded at the same time, was endowed with funds variously invested. Its resources proved stable, partly because they were wisely varied. For a similar reason there should be diversity with respect to locality. Misfortune sometimes visits one section of the country, affecting unfavorably all trades and property therein, while leaving other sections untouched. Because the field of operation of railroads covers most parts of the country, first mortgage railroad bonds have long been considered as embodying the chief characteristics of a proper investment of college endowment. The bonds usually run for a long period, are widely dealt in, and can easily be converted into cash. Since the European war the financial condition of almost all railroads has been somewhat uncertain, so that the railroad first mortgage bond perhaps at present is not *per se* in the highest class. Bonds of public utility companies were also once much favored as suitable investments for college funds. At present many of these companies are being subjected to exacting laws as to rates and service, which have depressed the value of their securities. Government, state, municipal, county, and district tax-exempt bonds now yield a much higher rate of interest than they did formerly, and possess all the requirements of a good investment. The tax-exemption feature, however, which appeals to a private investor is of no advantage to a college because of its own tax-exemption privileges. Other things being equal, the college should therefore purchase high-grade bonds not tax exempt, and benefit by the more favorable yield on cost. Preferred stock of well-seasoned industrial and other corporations is now coming into favor as a sound investment. Where the company has no bonds outstanding the stock is secured by all the company's assets. In most cases the dividends are cumulative and at a fixed rate. Endowments may, to a reasonable extent, be invested in choice preferred stocks.

INVESTMENTS PURCHASED SHOULD BE ENTERED ON THE BOOKS AT COST

Investments of endowment should be entered on the books at cost. In this manner the funds can be fully and accurately accounted for. The following equation should always be maintained: Endowment investments at cost plus endowment cash awaiting investment should always equal total of endowment.

One principle must be kept constantly in mind, namely: College accounts should be the record of actual transactions. If securities are entered at par value, as is often the case, it may be difficult to account fully for endowment funds, and the equation given above is not preserved. Some colleges which have the habit of carrying securities at par, debit or credit college income with the difference between par and the price paid for the security. This method is not proper because income should not be increased or diminished by changes in the principal of investments belonging to endowment. All transactions relating to the principal of endowment should be kept entirely separate from those relating to the current operations of the college, and the cash in no wise mingled or combined. Any endowment uninvested should always be in cash available for investment.

Profit realized from the sale of an investment should increase the endowment, and loss sustained should diminish it. Where endowments are grouped and invested as a whole the profits and losses realized may be carried in an account called "Profit and Loss on Investments" and the net profit, if any, held for the benefit of all endowments.

In ——— University investments in bonds and stocks are carried on the books at par, and the amount of endowment changed from time to time so as to conform. Under this plan endowments may vary considerably from year to year, according as purchases are made at a premium or at a discount. This is most confusing, for it is difficult for anyone to understand why a fund created this year by a cash gift of one hundred thousand dollars should next year be shown at one hundred twenty-five thousand dollars, while in the succeeding year it may be reported at eighty-five thousand dollars, because in the first instance it was invested in bonds purchased at a discount, and later it had been thought best to change the investment to bonds purchased at a premium. The amount of endowment should remain unchanged from year to year except as it may be augmented by additional gifts or by profits realized from the sale of investments or diminished by losses incurred in disposing of them.

When bonds are bought at a premium provision should be made to care for the premium by the maturity of the bonds by taking a portion of the interest received each year and setting it aside for that purpose.[1]

FUNDS INVESTED SEPARATELY OR AS A WHOLE

Two principal methods are employed in investing college endowment: Every fund may be invested separately; or funds may be invested as a whole, each fund sharing in the income in the ratio that it bears to the total of the funds. Reasons may be given in favor of each plan. Under the first, any profit realized on the investments benefits the fund to which they belong, but on the contrary any loss diminishes it. If it happen that the investments yield a high rate of income the object for which the fund was given receives the advantage, while, conversely, if the rate is low it suffers the disadvantage. Colleges do not always have freedom to choose which of the two methods they shall employ because donors sometimes stipulate that the fund given by them shall forever be kept separate and separately invested. Securities are sometimes given in which the trustees themselves would not invest, though the donor, through his

[1] See p. 73, chapter on accounting.

knowledge of the circumstances affecting their value, thinks highly of them. It is better to carry such securities in a separate account until they are paid or disposed of, and the trustees have invested the proceeds in securities of their own selection. If any endowment is of considerable size it may be invested separately to advantage, but if it is small there is greater difficulty in keeping it fully invested.

The second plan, viz., the combination of funds and their investment as a whole, has several arguments in its favor. In the first place, it obviates the necessity of keeping separate accounts and records to show the investments belonging to each fund; second, the cash uninvested consists of one sum and can be invested more readily; third, each fund receives the same rate of income; fourth, the rate of income is less likely to vary from year to year because of the amount and variety of investments; lastly, each fund is preserved from extinction because the losses and gains are divided among the funds pro rata, thus assuring the perpetuation of every fund unless it should prove that all investments become of no value, a contingency in the highest degree improbable.

From the foregoing it will be apparent that a college whose funds are at all numerous may probably use the two plans of investment simultaneously—the individual method where the conditions of gift or circumstances require it, and the group method in the case of all other funds. Under the group method care must be taken in including funds established by gifts of property or securities to see that they are not estimated at an inflated value; otherwise, the amount of a particular fund is unduly increased and the proportion of the combined income allotted to it unduly large. Where the method of investing endowment as a whole prevails a fixed rate of income is often assigned to restricted funds, and the residue given to unrestricted funds. This is not an equitable arrangement, and as the rate allowed is usually at the minimum rather than at the maximum the income of restricted funds is diminished for the benefit of the general income. Each fund should receive its just proportion of the income actually realized.

CONSTANT CARE REQUIRED

It has already been said that it is difficult to lay down rules specifying the particular sort of investment in which college trustees should place the funds they hold in trust, because the conditions of trade and industry vary so rapidly in response to discoveries, new inventions, and changing political situations. At best, one may only enunciate the general principles to which all investments should conform. The responsibility for the prudent investment of funds rests upon all the trustees, severally and collectively, and in the light of that responsibility they should satisfy themselves that every investment meets the requirements.[1] In making investments they should keep the purpose and safety of the trust in mind; they must not be misled by the prospect or possibility of some incidental or secondary benefit that might ultimately impair the value of the fund itself. For example, ——— College had among its assets a certain piece of real estate yielding a low rate of income, which, having been given without restriction, could be used in any way the trustees saw fit. Sometime later the college received a bequest of $40,000 for a specific endowment. When the executor paid the bequest in cash the college was in need of funds to pay its current debts. To meet this need the

[1] Mention is made later of the functions of the Committee on Finance and Investment (p. 186).

trustees assigned a portion of the land, which they valued at $40,000, to the new endowment, and used the $40,000 to pay college bills. The procedure was doubtless legal, but the testator would probably not have approved it, and for good reason, for its only favorable aspect was that it simply relieved the trustees of the necessity of raising $40,000. Extravagances and recklessness will inevitably occur, if such practices are permitted, for administrators will unconsciously depend on windfalls to rescue them from embarrassment. To make matters worse, the real estate which the college "sold" to the new fund later became non-income-producing. Several serious errors of judgment were committed: (1) The college should probably not have incurred the $40,000 debt; (2) if the debt was unavoidable, independent measures should have been taken to raise the money needed to discharge it; (3) the land should have been held as a general asset and should have been disposed of at the proper time, the sum received then being invested on the principles enunciated above; (4) the cash bequest should have been treated as inviolable, should have been conservatively invested, and so preserved as income-producing endowment.

Nor do the responsibilities of the trustees end when investments are made. It is their duty to be on the watch constantly to detect any circumstances or causes which might affect their value. As soon as they detect anything which in their judgment may unfavorably affect the final value of an investment they should take such action as the situation demands. So long as there is no question about the ultimate payment of the security, and so long as the interest is paid regularly, the trustees are not particularly concerned with changing market value. But they should be much concerned if the fall in market value forecasts a permanent decrease in the value of the security and its ability to continue to pay interest. Trustees too often feel that their duty is finished when they have made an investment, and thereafter give little or no thought to it unless through the suspension of interest or dividends, or some other untoward happening, their attention is forcibly turned in that direction. This *laissez-faire* policy is also encouraged by the opinion prevalent that if trustees change investments frequently they may be accused of using the college funds for speculative gain. There is a fundamental distinction between disposing of securities for prudential reasons and selling them in the hope of profiting by variations in market value. The former is sensible, the latter reprehensible.

Trustees are often restrained from selling securities whose value is decreasing because of the resulting shrinkage in endowment. It frequently happens that securities pay interest for some time at least after serious depreciation in value has occurred, a fact which may give rise to the hope that their former value may be restored and the necessity of taking the loss prevented. Trustees, however, should observe the first signs of depreciation and consider whether it is better to dispose of the security promptly and take the loss, or continue to hold it.

REPORTS TO TRUSTEES ON CONDITION OF SECURITIES

To enable trustees to keep in touch with the situation with regard to the investment of endowment funds it is a good plan for the administrative officers to send them frequent reports, at least as often as once in three months, showing in parallel columns the securities owned, their cost, the present market value, the market value a year ago, the amount of increase or decrease in present market value as compared with cost, and the income yield on present market value. If the reasons for change in value are known they should be given in a column headed "Remarks." Reports of a similar kind should be made regarding real estate mortgages and other investments which are not listed in market reports. In the case of real estate and farm mortgages the report might give a list of all those which are overdue, or on which interest is unpaid, and the location of the property mortgaged, together with a report of the amount of mortgages on other property in the same locality which the college holds. The information thus furnished would be helpful to the trustees in determining whether they should make more loans on property in those localities. The status of real estate owned might be disclosed by reports showing the gross rental, the cost of operation, and the net return as compared with those of previous years. A series of reports made on these principles ought to be of assistance to the trustees in enabling them to safeguard endowment and to assure to the college a steady income as large as is consistent with safety.

ENDOWMENT FUNDS SHOULD NOT BE LOANED TO TRUSTEES AND OFFICERS

From the point of view of policy and good business procedure endowment funds should not be loaned to any trustee, officer, or employee of the college, nor to any business which they own, nor to any corporation for whose management they are responsible. Neither should any loan be made to any person upon the guarantee of a trustee, officer, or employee. If the college charter does not prohibit this practice it should be forbidden by the by-laws or by resolution of the board. The establishment of this principle strengthens the hands of the trustees and avoids embarrassment which might arise through the request for such loans. The reason for this is quite apparent for if, through misfortune or otherwise, the interest on such loans becomes delinquent, or the loans themselves are not paid at maturity, the trustees of the college are placed in the position of having to enforce collection against their own officers, which they might be very reluctant to undertake. The trustees of —— College, through its finance and investment committee, had made several loans secured by municipal bonds, taken at par, to one of its own trustees. When the matter came under observation of the author the market value of the bonds was less than the par value. The hands of the college were tied; it could neither sell the bonds nor very well ask for additional security.

UNDESIRABILITY OF INVESTING ENDOWMENT IN COLLEGE BUILDINGS AND LAND

Endowed colleges sometimes use endowment funds to construct buildings, especially dormitories, and to purchase additional land for campus. In so far as the expenditures have been made for campus, for recitation buildings, laboratories, and libraries, which are in themselves non-productive, endowment is destroyed in order that provision may be made for what seems to be an exigent need of the college. *Campus, laboratories, libraries, recitation buildings are not endowment, and funds so invested simply cease to be endowment, for they produce no money income.* In some cases where the funds are expended for non-productive college buildings and land, the trustees try to keep up appearances by charging current expenses of the college with the customary rate of interest on the sum used, and crediting endowment income. This course is nothing but juggling. The investment in question does not earn interest; hence the amount of the interest credited to the endowment must come from some other source. The fact is that the college income is reduced to the extent of the interest on the sum used to construct the building or buy the land, and administrative morale has been impaired by the use of subterfuge.

The use of endowment for building dormitories may seem on first thought to be justified on the theory that they may confer a double benefit on the college, first, by producing income, and second, by providing accommodations for students who pay tuition. As has been said before, incidental or secondary benefit resulting to a college from investments of endowment funds should not be the controlling motive, and the same exacting tests should be applied to an investment in dormitories as to any other endowment investment, namely: Will the permanency of the principal be conserved, and will the rate of income be as high and regular as from a high-grade investment? The rate of income on dormitories given in college reports is not the actual rate in many instances. Many of the expenses incurred in their maintenance and management are included in the general expenses of the college instead of being charged to the operation of the dormitories. Provision is rarely made for depreciation to provide a fund for the replacement of the principal invested, which must be returned intact to endowment when the building is worn out if the permanency of endowment is to be secured. Thus, ——— University had by permission of the donor used library endowment to build dormitories on the understanding that 6 per cent per annum on the sum expended should be credited to library income. In arriving at the income available for this purpose no charge was made for heat and light (because it came from the central power plant) and no charge was made to provide a fund for replacement of principal.

Carefully prepared statements have been made by a few institutions showing the results of operation of their dormitories for a period of years, including among the expenses all current charges, as well as a reserve for replacement of principal. These reports show that the average return is a little over 3 per cent. For a few years after the dormitories were built their net income was large because few repairs were needed, but as the buildings became older the amount needed for repairs became much greater. It would thus seem that judging the matter on its merits as an investment, dormitories do not possess the requisite qualifications. As to the incidental benefit which may arise from an increase in attendance, it is well to keep in mind the following principle regarding college endowment: *College endowment should be invested in such a manner that income on the investments shall in no wise be affected by the operation of the college, nor by any circumstances relating thereto.* If the college revenue is diminished through a smaller attendance there is then greater need of income from endowment. If attendance diminishes, dormitories may have to be kept open at a loss, and precisely at the time when the college is in need of more rather than less income from endowment. The college cannot sell its dormitories if they become unprofitable, nor dispose of its buildings while it is a going concern. But if it had invested in securities it could readily change the form of investments.[1]

[1] See pp. 33–34. Objections to investments in property devoted to a special purpose, not readily merchantable.

For various reasons, therefore, the investment of endowment in college campus and buildings, even dormitories, is unwise.

HYPOTHECATION OF ENDOWMENT INVESTMENTS

Still another misuse of endowment is encountered from time to time, viz., the pledging of endowment investments as security for loans for the current expenditures of the college. Trustees who would repudiate scornfully the suggestion of using college endowment, even temporarily, to pay current debts, have at times authorized its use as collateral for loans for current purposes, apparently overlooking the fact that by so doing they have parted temporarily with the securities, and can regain them only by raising money to repay the loan. If they fail to redeem the collateral from the bank they have just as truly used endowment funds for current expenses as if they had sold the securities and used the cash.

If the question of legality were raised it would probably be found that a trust fund, such as endowment, created with the understanding that the principal shall be maintained inviolate and the income only used, could not be put in jeopardy for any purpose not connected with the preservation of the principal of the trust. Examples of using endowment investments as collateral for loans for the needs of colleges are unfortunately too numerous and are made even in defiance of the provisions of the charter and by-laws. ——— College, some years ago, had prohibited by resolution the use of any endowment assets as collateral. Notwithstanding that prohibition, it later authorized the treasurer by formal resolution to pledge as collateral any security which the college possessed. The treasurer accordingly used Liberty bonds belonging to endowment. The charter of —— University states that endowment investments must not be hypothecated. Nevertheless, nearly three-fourths of its endowment was quite recently so used. This institution is therefore practically bankrupt. The enormity of the offense does not, however, depend upon the size of the amount. Endowment being inviolable, not a single bond or share of stock must ever be hypothecated for the purpose of paying any bill whatsoever, be the college little or big. And there is sound practical sense, as well as sound law and ethics, in this inflexible position, for when once a small block of stock has been hypothecated and redeemed it is easy to increase the scale of the transaction. Ultimately, hypothecation is resorted to in order to enable the institution to undertake ambitious work that it cannot afford, in the hope that some benefactor may be found to endow it. Financing of this kind inevitably ends in disaster. "Once endowment, always endowment" is again the only safe, as it is the only legitimate, and the only ethical principle.

FLOATING DEBT

The income from unrestricted endowment may be used for any of the legitimate expenses of the college, but where colleges have accumulated floating debts through deficits from operation, and are carrying them by bank loans, usually at a high rate of interest, a corresponding amount of endowment income is absorbed in paying the interest, and its use for ordinary expenses prevented. College deficits, like rolling snowballs, tend to increase. The larger they are, the larger is the amount of current income required to pay interest on them, and the smaller is the sum available for current operations, with the result that a larger deficit occurs, which in turn increases the floating debt, and so the vicious circle is enlarged. Some college administrators have held that a debt is a beneficial thing because it acts as a stimulus in encouraging friends to make donations. It may possibly stimulate officers to greater activity in seeking gifts, but the person who likes to pay old debts is rarely found. People of means and of sound business judgment much prefer to give money in advance of its expenditure, while they have some choice in the matter. The budget system, which will be described in chapter vi is designed to enable a college to bring its income and expenditures into harmony. In the absence of a budget system colleges often spend more than their income, gradually accumulating a heavy burden of debt, which, in effect, renders a corresponding amount of endowment of no avail for constructive work. An example of how endowment is nullified is furnished by ——— College, which, in 1918, obtained subscriptions to pay off its debts, but while the pledges were being collected it accumulated another debt of nearly $200,000. It must now start a campaign to clear away the new debt. While this is being done still another debt will probably be created, if the experiences of the college are repeated. The institution should undertake to raise a sum to capitalize the debt, and a further amount, payable in two or three years, to pay off its indebtedness and to care for any deficit that might arise while the endowment was being collected. When completely out of debt it should refuse to spend more than its income.

Another illustration is furnished by ——— University, whose floating debt equals the amount of its endowment, and whose interest absorbs all of the endowment income. Moreover, it is running behind regularly, and constantly adding to its already large debt. If money is raised to pay the debt, the income from endowment once more becomes operative, but the policy is reprehensible. Colleges will do well to restrict their operations to such activities as they can afford. Even then they may occasionally have a deficit at the end of the year, but this will be small and should be promptly cared for and not allowed to remain and increase until it becomes a menace to the security of the institution.

USE OF ENDOWMENT CASH FOR CURRENT EXPENSES

An even more insidious use of endowment for current expense arises from the custom which prevails in some colleges of keeping endowment cash and current account cash in one bank account and drawing on it for the needs of the college as they arise. If any cash belonging to endowment is on hand awaiting investment, and there is none belonging to current account available for meeting the monthly pay-roll, or some other urgent current expense, the endowment cash is used automatically through the issuance of regular checks, and the investment of the endowment cash necessarily postponed until such time as the current account is in funds. Inasmuch as many colleges regularly run in debt from current operations, the date of replacement of endowment cash is almost indefinitely postponed or deferred until by gifts or special efforts the deficit is raised. Where endowment cash is used the trustees sometimes go through the motion of being "fair" to endowment income by crediting interest on the sum used. This action on their part leaves the situation just as it was before if the endowment used is general, because the same sum is charged to expense and credited to income. But if it is restricted, allowing interest on it adds to the deficit and absorbs so much more endowment cash to care for it.

By pledging endowment assets as collateral for current loans and using endowment cash to pay current bills, the entire endowment of ——— College was exhausted and its doors closed, and many other colleges have been brought perilously near the same fate. Cash belonging to endowment should be kept separate and distinct from current cash, and should not be deposited in the same bank account. This plan keeps any endowment cash uninvested available for investment as soon as a suitable one is found, and prevents its use for current debts, unless the authorities of the college use it deliberately, which they have no moral or legal right to do.

FUNDS SUBJECT TO ANNUITY

Colleges often receive for endowment sums subject to the payment of an annuity during the lives of one or more persons. Such funds and their investments should be kept separate and not included in the endowment of the institution until after the death of the annuitants, when it may be determined how much of the sum received really constitutes a gift to endowment. The college should make as careful provision for the rights of the annuitants as the law requires of companies dealing in annuities. Funds subject to annuity should not be invested in the buildings of the college; in fact the rule with regard to investment of endowments, described on page 45, applies with greater force, if possible, to annuity funds. Before accepting gifts subject to annuity the college should make sure that they can be carried without decreasing the current income of the college. This rule may require a working fund, which may be created by assigning a matured, unrestricted legacy or annuity, or by building up a reserve from surplus annuity income. The education of the present generation is the immediate duty of the college, and it is not justified in falling short of its utmost effort in that respect in order that it may provide more liberally for future generations.

TREATMENT OF PLEDGES

Pledges and subscriptions to endowment are not endowment until they are actually paid; therefore, they should not be included in it. Endowment is a reality, not a potentiality; pledges and subscriptions are potentialities. The amount reported as endowment should normally increase, but if uncollected pledges were included in endowment, and later those found to be of no value taken out, the opposite condition might arise. A careful account of pledges and subscriptions to endowment should of course be kept. But it is better to keep a special record for this purpose. As subscriptions are received they should be entered in a book in numerical order, giving the names and addresses of the donors, and the amount and conditions of payment of each pledge. The pledge card may be so designed that it can be used as a ledger card and filed alphabetically. As payments are received the details may be kept in a special cash book and the totals transferred to the main cash book. From these records the total amount pledged, the sum paid, and the remainder unpaid may be learned at any time.

PROCEDURE TO BE OBSERVED IN MAKING INVESTMENTS

Whatever the special duties of the finance committee of the college, the proper investment of endowment is a responsibility resting on every trustee. As a matter of actual practice, it is often difficult and inexpedient to call the trustees together to pass upon each investment proposed.

Therefore, the plan of appointing a standing committee of the board, composed of three or more members, who can attend meetings readily, and whose duty it is to pass upon the sale and purchase of investments, is a sensible one. The committee should keep full minutes of all its meetings, and after each meeting should send promptly a copy of the minutes to each member of the board for his information. At the next regular meeting of the board it should also report its actions for ratification. Every trustee should realize that while for the sake of convenience and expedition the committee on investment is charged with the special duty of selecting suitable investments and of recommending the disposal of unsuitable ones, the responsibility of each member of the board with respect to the trust funds of the college is in no wise diminished thereby. Moreover, the judgment and knowledge of the whole board are in the long run better than that of a few members.

CUSTODY OF SECURITIES

Securites should be carefully safeguarded. They should be kept in a safety deposit vault, and access to them should never be had by fewer than two persons together. A copy of the by-law providing for access to the securities should be filed with the officers of the safety deposit company, who should be required to see that its provisions are rigidly observed, and should be held accountable for their observance. The persons permitted access should be persons specifically designated by the board of trustees. The treasurer or his representative should always be present. A record of the securities and documents to be deposited or withdrawn should be made, and a copy of it, signed by the persons present, placed on file. Under no circumstances should one person alone have access to the securities, a custom which is now followed in many of the smaller endowed colleges. It is desirable to establish and maintain good practice even when the amount involved is but small.

Some colleges employ as custodian of their securities a bank or trust company, which also collects the principal and interest and remits them to the college. In such cases the financial responsibility of the custodian should be carefully investigated and the relation its own assets bear to the amount of securities deposited by the college. The supervision which it receives from the state or federal authorities should also be a factor in its selection. The trustees should at any time make such count and audit of the securities of the college as seems best to them, but in addition to such examinations, they should employ a public accountant to make an annual audit and inspection, and should publish the result of his examination in the treasurer's annual report.

CHAPTER V

PHYSICAL PLANT

Land, buildings, and equipment acquired and used for academic purposes by an endowed college come next in importance. Since the European war the high cost of labor and material has rendered the maintenance and extension of these facilities a serious question. How a college can keep its buildings and campus clean and attractive and in a good state of repair without devoting too large a portion of its income to that purpose is a problem vexing the minds of many a college administrator. There is some danger that of the total income of an institution too large a proportion nowadays goes to maintenance, too small a proportion to teachers' salaries. Colleges might well construct a curve showing over a period of years the relative proportions of total income that are devoted to (1) instruction, (2) maintenance and upkeep, and (3) administration. A graphic representation, kept up to date, would probably not be without influence on their policy. The graph on page 55 shows conditions over a period of ten years at a well-known institution. It is obvious at a glance that while the percentage of income absorbed by upkeep is increasing, that devoted to payment for instruction is decreasing.

DEFINITION

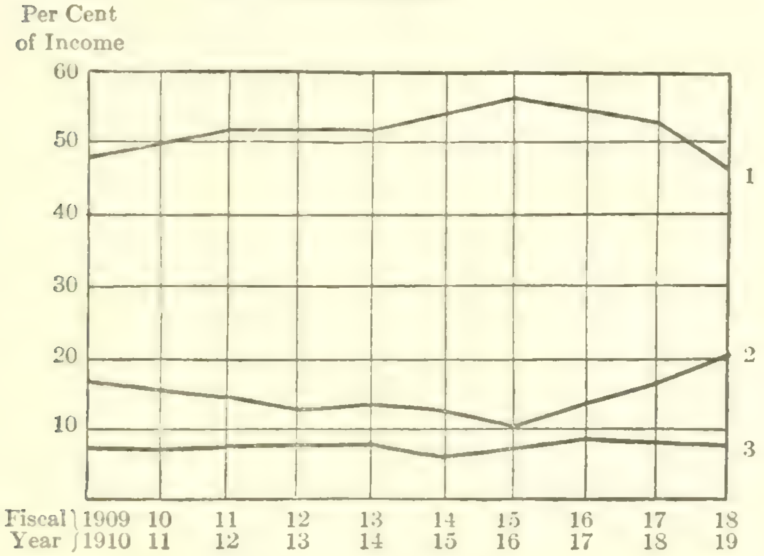
The physical plant consists of the land used for campus, with its improvements, and the buildings, together with their furniture and equipment, books, scientific apparatus, machinery, and tools.

PLANT TO BE CARRIED AT COST

College plant should be carried on the books at cost, and the amount thus carried should equal and account in detail for all funds used in acquiring it. Since college accounts should be the actual record of gifts, endowments, and all other receipts and their use, the wisdom of carrying "plant"

Graph Showing Relative Proportions of Income for Current Purposes Devoted to:

1. Instructional Salaries
2. Maintenance and Upkeep
3. Administration



at actual cost is apparent, and the custom which sometimes prevails of carrying it at an estimated value is to be deprecated. In case any of the plant were offered for sale, the price placed upon it would depend largely upon what could be obtained for it, and not upon the value given on the books. Therefore, to carry it at cost is the logical method. College plant, in the course of time, often increases in value, and there may be something gained in the way of information by occasionally having it revalued and the estimated value shown in a footnote in the college financial report.

A complete record or inventory containing a description of the physical plant should be kept and revised annually so as to include all additions and eliminate deductions. This record should indicate when the various items were acquired and their cost. The cost should of course accord with the ledger accounts.

INSURABLE VALUE

The cost of buildings and equipment may be, and usually is, quite distinct from their insurable value. During the recent period of high prices of building material and labor, insurance needed on college buildings and equipment was naturally far in excess of their original cost, and the fluctuating character of the inventory value of buildings and equipment reflected this condition. Fire and tornado insurance should be based on inventory value if the college is to be protected properly against losses, a value which might differ materially from the book values. The inventory value should represent the cost of reproduction in identical condition, or, in other words, the cost on that date less depreciation.

DEPRECIATION

All buildings and equipment depreciate and wear out in course of time. In a going concern, plant and equipment necessary for its operation must be replaced when worn out or useless. In profit-making corporations funds for replacements are provided by setting aside a sum annually from income. As colleges are not being operated for profit, the same considerations for providing for replacement of buildings and equipment from income do not apply to them.

Endowed colleges in the first instance have obtained funds for plant and equipment by gifts, and as a general rule their trustees consider it the better policy to rely upon the same source for any buildings and equipment which may be needed in the future. They are, moreover, so beset with difficulty in procuring income sufficient for the present needs that they are not interested in raising funds for needs of the distant future. As the present and past generations have provided the existing buildings, it is neither unwise nor unfair to expect future generations to do as well.

In some colleges journal entries are made to show the estimated amount of depreciation in buildings and equipment, but a sum to provide for it is not set aside from income. They are, therefore, book entries only. Unless the trustees adopt as their policy the plan of providing from annual income a sum equal to the amount of estimated depreciation, and set it aside regularly and invest it so as to provide an adequate amount when needed, the entries are of no real value and may complicate the accounts. So long as the plant serves the purposes of the college effectively its present value is of little consequence, but there is real information and accounting value in keeping the plant on the books at cost. Any item sold or destroyed should be taken off the books so that only property actually in the possession of the college should be included in the plant assets.

CHAPTER VI

ACCOUNTING

The accounting system of a college should be designed to meet the needs, conditions, and ideals which have been set forth in the preceding chapters. It is necessary that the accountant understand the nature and purpose of a college, what its peculiar characteristics are, and how they differ from those of a commercial or manufacturing corporation. Failure to recognize the fundamental differences between a college and a corporation organized for profit has often led to the imposition on the college of an accounting system suited to a business organization. A business corporation is established for the sole purpose of making a profit on the money invested. For that reason its accounts must be kept so that profit or loss may be determined, e.g., proper allowance must be made for depreciation of plant, for bad debts, for income accrued, and for accounts unpaid—otherwise, the financial situation cannot be correctly exhibited. Accurate distinction must be made between capital expenditures and those for current operation. In the accounting system of a college, since it is not organized for profit, accounting principles and practices specially designed to determine profit or loss are out of place.

ACCOUNTING FOR FUNDS

What are the characteristics of the endowed college which must be kept in mind in framing its accounting system? First, and most prominent, is the fact that it is not a profit-making corporation and that a part of its income is derived from endowment. Its accounting system must therefore be designed for trust accounts. There must be an accurate record of each trust, showing its origin, its financial history, its present condition, and the manner in which the trust is being executed. Trust funds should therefore be kept apart from all other funds and operations of the college, their accounts segregated in a special ledger, and their cash deposited in a separate bank account. Three ledger accounts are needed: one with the fund, one with the investment of the fund, and a third with the income of the fund. Investments should be entered at cost so that at all times the debit to investment account, plus cash uninvested, equal the credit to the fund. If the amounts invested in bonds, stocks, real estate mortgages, or real estate, are needed for informational purposes the ledger account with the investment of the fund may be subdivided accordingly. A list of investments should be maintained, preferably on cards, giving particulars of each investment, its cost, rate of income, date of maturity, face or par value, interest payment dates, and, if a mortgage, the property mortgaged. The list should be kept up to date at all times by eliminating cards for investments paid, and by inserting cards for investments made. The totals of the cost must be in agreement with the ledger. Before the end of each month a list of interest and principal due during the coming month should be taken from the cards so that collections may be made promptly and accurately.

If the funds are invested as a group instead of individually the only difference in treatment from the foregoing is that while a similar ledger account must be kept for each of the funds separately, only one main account with their combined investment is needed. In such a case the debit to investments, plus the cash on hand, should equal the sum of the credit balances to all the funds.

At stated times, or as soon as it is received, the income on endowment investments should be paid to the current account of the college, to be used in accordance with the conditions attached to the respective funds. For convenience' sake, however, the ledger accounts with income may be kept in the current ledger, and the income as received deposited at once in the current bank account.

RECORD OF FUNDS

Endowments are trust funds and should be handled and cared for in accordance with the conditions of the trust. So the accounting records must be full and explicit that the administrators may always know exactly what is required. The ordinary routine with respect to a gift for endowment is somewhat as follows:

The president of the college reports to the board of trustees that a friend offers a gift for endowment for a certain purpose, with certain conditions. If the purpose and conditions are acceptable to the college the board passes a resolution formally accepting the gift with its conditions, and the president is authorized to acquaint the prospective donor with the action. If some modification is desired in the terms of the proposed gift that fact is communicated to the donor, and if he consents to the suggestion and modifies the terms, the trustees then, by formal resolution, accept the gift. The minutes of the board of trustees should contain the correspondence respecting the gift in full and should recite its terms and conditions and the resolution of acceptance. When the gift is paid, a full descriptive entry should be made on the financial books, enumerating its conditions and purpose, and referring by book and pages to the minutes of the board for complete particulars. If the gift were paid in cash the entry would appear on the cash book, and if it were paid in securities or property the entry would be made in the journal. The correspondence and all the original documents should be filed away in safety and made easy of access. It is exceedingly important that the history and conditions of each endowment fund be given so that succeeding generations of college administrators may, with full knowledge and understanding, execute the trust properly. At present the records of endowed colleges are probably more deficient in this respect than in any other. A short time ago the treasurer of a college in the Middle West remarked that he was going through the archives of the college for the purpose of finding out if possible how the funds of the college originated and what conditions were attached to them. He was also consulting with the "oldest inhabitants" of the college community to learn what they could contribute to the subject. He was embodying the results of his labors in the college records so that future administrators would have in convenient form all the information which he had obtained. The researches made by this officer are typical of what is being done at many of the older institutions.

FUNDS FOR SPECIAL PURPOSES

The next point to be noted with regard to the accounting needs of an endowed college is that certain funds are given to it for special purposes, the principal of which, under certain conditions, as well as the income, may be used. These funds should also be kept apart from the general accounts in order that they may be strictly accounted for and applied in accordance with the terms of the gifts. The ledger accounts needed are the following: one showing the amount of each fund; one giving the expenditures on behalf of each fund; one with the investment of each fund, unless invested as a group (if any of it is temporarily invested); and the fourth, an account with income. The debit to investment, plus the debit to expenditures, plus cash on hand, should always equal the credit to the fund plus the credit to income. Any uninvested principal and income should always be represented by cash actually on hand. Where the number of endowment funds and funds for special purposes is not too numerous they may all be kept in one ledger and the cash deposited in one bank account. If this plan is followed a daily report should be made showing the amount of cash on hand belonging to each fund. The same scrupulous care is required in recording the history and conditions of funds for special purposes as is needed for those of endowment funds.

Where it is the custom of the college to invest its funds as a whole, endowment funds should be invested in one group and those for special purposes in another, because a different set of considerations should determine the investments for each group. Investments in the latter group are temporary, the object being so to invest the funds as to get as favorable a rate of interest as is prudent until the funds are needed, and at the same time to provide for realizing the principal promptly without loss as soon as required. To meet these conditions choice is limited to investments such as certificates of deposit, treasury notes, short-term bonds, and the like, whose rate of interest may be comparatively low. But as speedy realization on principal is not a necessity in case of endowment investments, investments running for a longer period are suitable. If the investments of both groups were merged and the income divided on a pro rata basis, the plan might not operate with equal justice.

Cash transactions of endowment funds and their investments, and of funds for special purposes, may be kept to best advantage in a special cash book. However, they may be kept in the cash book used for current accounts by using columns to separate these transactions from those for other purposes, but the cash belonging to them should always be deposited in a separate bank account.

For ready reference a special file or folder of the several endowment funds and funds for special purposes is very convenient if arranged in alphabetical order, reciting the letters of gift and the conditions in full, and referring by page and number to the minute books in which they were originally recorded.

Thus, the first requirement of an accounting system of an endowed college is provision for a strict and accurate record of its endowment funds, and of its funds for special purposes.

ACCOUNTING FOR PLANT

The second characteristic of college accounting is the peculiar relation which the educational plant and equipment bears to the enterprise. To replace its educational buildings by setting aside annually a fund from income for that purpose is at present not the policy of an endowed college. Therefore, there is no occasion to make journal entries charging income with the estimated amount of depreciation which is not met by annual repairs. The accounts should show the money which has been expended for the purchase of land and for erecting, furnishing, and equipping the buildings. These ledger accounts should not be changed except to record purchases of more land and the cost of erecting, furnishing, and equipping more buildings, or for the extension, improvement, or obliteration of the present ones. For a college, with its campus and buildings completed, the ledger accounts needed are: "Land," the debit balance of which should be the amount paid for campus, or its value when donated; one with "Buildings," showing the amount expended for their erection; one with "Furniture," and another with "Equipment," each showing the actual cost. These ledger accounts should be supported and explained by journal entries or statements giving in detail the amount spent for each of the above objects. The debit balances of these ledger accounts should be equaled by the credit balance of a ledger account entitled "Plant Capital," which should represent the total of the gifts, grants, and appropriations received and made for the acquisition of the land, buildings, furniture, and equipment. In many instances the early records of colleges are defective and it is difficult, if not impossible, to ascertain the original cost of plant and equipment. Where such a condition prevails it is necessary to enter the cost at an estimated or appraised value, but thereafter all new buildings and their equipment and any land acquired should be entered at actual cost.

ACCOUNTING FOR BUILDINGS IN COURSE OF CONSTRUCTION

The buildings of an endowed college are usually provided for by gifts. The accounts should show the exact amount of the gifts and their application. Since the sum of money available for the purpose is ordinarily limited in amount, exact plans and careful estimates of cost, together with actual contract propositions, should be obtained before the work is undertaken. If the total cost equals or falls within the amount of gift the work may be authorized, but if it does not it should be postponed until the cost is reduced by modifications in the plans or until additional funds can be secured. When the gift is received it should be credited to a specific building account under the name of the proposed building and called "——— (Name) Building Fund," and included as a building fund among the funds for "Special Purposes."[1] As expenditures for the building are made they should be charged to "——— (Name) Building Construction." The amount by which the credit balance to the fund exceeds the debit balance to the construction account would be the amount unexpended, and should be found in cash or in temporary investments. But if the fund were overexpended the sum by which the construction account exceeds the fund would represent the overdraft. Separate ledger accounts should be kept with the furniture and the equipment of the building, and with the funds or appropriations provided for them. When the building is completed, furnished, and equipped the special ledger accounts with construction, furniture, and equipment should be closed into the property accounts, "Buildings," "Furniture," and "Equipment" respectively, and the ledger accounts with the funds, if the funds are exhausted, closed into the account "Plant Capital"—there to remain without change until the building is demolished, destroyed, or enlarged. If the funds are greater than the actual requirements the excess should be refunded to the donor, or, with his approval, devoted to some other purpose.

If it should happen that the fund for building cannot be used promptly it may be advisable to invest it temporarily

[1] See p. 61.

in readily negotiable securities, adding any interest received to the fund. The accounting treatment then should conform to that prescribed for "Funds for Special Purposes."[1]

The question is often raised: If the ledger accounts show the original cost of buildings, furniture, and equipment, and are not modified to conform to changing values, would it not be difficult to establish an insurable value? The answer to this question may be found in the chapter on "Plant."[2]

When once the buildings are erected, fully furnished and equipped, the burden of keeping them in condition is an expense of current operation, which must be met from current income. Its accounting treatment will therefore be described in the paragraphs relating to that division of college accounting.

ACCOUNTING FOR CURRENT OPERATIONS

The third group of financial transactions for which the accounting system of an endowed college must provide embraces all the current operations of the college. In this group are included all transactions not accounted for under "funds" and "plant." The combined result of the operations in this section is expressed by the total amount of surplus or deficit for the year. For the purposes of administration, however, the accounts should be so designed and kept that the trustees may know what each division of the college forming an operating unit contributed to the result. Therefore, operating accounts should be provided for each of the classes after the manner enumerated in the chapter on "Disbursements,"[3] namely: (1) for the operating receipts

[1] See p. 61.

[2] See p. 56, "Insurable Value."

[3] See p. 19.

and disbursements for strictly educational purposes; (2) for the operating receipts and disbursements of auxiliary departments; (3) for the operating income and expenditures of the dining-halls, dormitories, bookstore, and similar departments and activities; (4) for sundry receipts and disbursements of a general nature not included in the first three classes.

THE BUDGET

The budget method is best adapted to account for and control the operating receipts and disbursements for strictly educational purposes. The educational work of a college ought to be limited by the income at its disposal. Its opportunities are usually unlimited. If it conducts its financial administration on the basis of its opportunities, without reference to its limitations of income, financial disaster is inevitable. But no college is under any obligation to undertake to render a service for which it cannot pay. Realizing the importance or the necessity of a demand, the college may fairly appeal for funds to meet it, but if the funds are not forthcoming, the college has no right to incur debt either by borrowing money or by hypothecating inviolable securities. It would not be fair to create the impression that all colleges have erred in this matter; still unwisdom of this type is not rare.

The budget system of control was designed to assist governments and institutions in restricting their expenditures to their income. In the case of a college it consists of two parts: one part containing the estimated income; the other containing the appropriations for the estimated expenditures.

A classification of income as to sources must first be made, and then a careful estimate of the amount of income which may be expected from each source. For a college of liberal arts the following classification of income is suitable:

BUDGET INCOME

A. For strictly educational purposes
- I. From student fees
  1. Matriculation
  2. Tuition
  3. Graduation
  4. Laboratory
  5. Incidental
  6. Library fees and fines
  7. Locker
  8. Miscellaneous
- II. From endowment investments
  1. Income for general purposes, unrestricted
  2. Income for general purposes, restricted
     - *a*) President (Laing Fund)
     - *b*) Maintenance of buildings
       - (1) Science Hall
       - (2) Observatory
     - *c*) Professorial chairs
       - (1) Latin—Ellery Fund
       - (2) Mathematics—Hannan Fund
- III. From gifts and grants
  1. For general purposes, unrestricted
     - *a*) From North West Synod
     - *b*) From Alumni Association
  2. For general purposes, restricted
     - *a*) From George Walker, for books for English Department
     - *b*) Etc.
- IV. From miscellaneous sources
  1. Rentals of college buildings
  2. Sale of old materials and equipment
  3. Etc.

Total income for strictly educational purposes (estimated) $....

B. For specially designated objects not a part of the strictly educational work
  - I. From students
    1. Athletic fees and tickets
  - II. From endowment investments
    1. Lectures—extra-curriculum
    2. Scholarships
    3. Student aid
    4. Prizes
    5. Athletic field maintenance
    6. Dormitory library
  - III. From gifts and grants
    1. Lectures—extra-curriculum
    2. Scholarships
    3. Student aid

Total income estimated for specially designated objects $......
Grand total of income $......

There are certain receipts and disbursements of a general nature pertaining to the current operations of a college which do not constitute a part of the income available for the expenses incurred in the cost of educating the students. Nevertheless, they are in the majority of cases included by colleges among the educational receipts and disbursements, a procedure which renders it difficult to learn the exact cost of operation for strictly educational work. In some instances they are segregated and classified so that they may be eliminated from the statement without much difficulty. This method is an improvement upon the promiscuous inclusion, but it seems better still, as given above, to account for these operations in a separate section of the budget (see Div. B). Income on endowment and gifts for scholarships and student aid are examples. Appropriations should not exceed the funds available for these purposes. Any amount unexpended should be carried forward to the next year's account and reserved for the object of the gift. Fees paid by students who are beneficiaries of scholarship funds and gifts under this plan should be counted as cash receipts since they differ only in the respect that the students obtain the funds wherewith to pay them from the college treasury rather than from their parents. This statement holds good whether the money with which to pay his fee is actually paid to the student, or whether it is credited to his account by book entry or voucher.

HOW ESTIMATES OF INCOME SHOULD BE MADE

In estimating budget income certain rules may be followed to advantage. First, and most important, is the rule that the estimate shall be conservative and sure of realization, unless something most unusual occurs. If there is doubt as to certain income being secured, it should not be included in the estimates. Appropriations for expenditures are made and obligations incurred on the basis of the estimates of income, which cannot be fully met if the estimates of income prove unreliable.

STUDENT FEES

The estimates of student fees should be the amount received from students for the last completed year, unless the officers have reasons for supposing that the amount will be smaller. Only in most exceptional cases should the estimate be placed at a greater sum, and the reasons for doing so must be most convincing.

INCOME FROM ENDOWMENTS

In estimating income from endowment investments the investments which the college holds should be classified into: (1) those maturing later than the year for which the estimates are being made, on which the income is practically assured; (2) those maturing within the year for which the estimates are being made, on which the income is assured; (3) those maturing before the opening of the year for which the estimates are being made; (4) real estate owned; (5) cash awaiting investment; (6) unproductive investments.

The estimated income from investments in Class 1 would be the sum of the income payable on them during the year, less any provision made for amortizing premiums. It will be noted that the sum to be given as the estimate is the amount payable during the year rather than the sum accruing. As college expenditures are on a cash basis it is better to put the receipts on the same basis and include only those items which are actually received during the year and which can be used to pay the debts. Thus, a surplus at the close of the year is in cash, and a deficit is a real deficiency of receipts. Taking one year with another, the amount of receipts on the cash basis will not differ materially from that on an accrued basis, while the amount of labor included in keeping the accounts on the former basis is much smaller.

The estimated income on securities in Class 2 would be the amount of income payable during the year on the investments then held, plus the estimated income payable on the investments made to take their places, less provision for amortization of premiums. It is better to allow a little time for reinvestment, say a month, and to figure a sure rather than a high rate of interest on the new investments.

Inasmuch as investments in Class 3 mature before the beginning of the year for which estimates are being made, an estimated rate of interest on their reinvestment should be allowed, as described under Class 2.

The estimate of income to be obtained from real estate owned (Class 4) should be based upon the experience of previous years, modified by any known changes in rentals, taxes, wages, repairs, and other costs of operation. Depreciation must of course be provided for—otherwise, the principal of endowment would be dissipated.

The same rate of return upon reinvestment should be allowed on cash awaiting investment as on reinvestments in Classes 2 and 3.

Unproductive investments (Class 6) should include all non-income-producing investments and those from which income is doubtful. For them no estimate of income should be made. If any of them become income-producing during the year, so much the better for the college. In case any property is operated at a loss the estimated loss must be shown as a deduction from the total income.

When the income on the several classes of investments has been estimated it should be apportioned to the unrestricted and restricted endowment in the ratio which they bear to the total, or on the basis of the investments belonging to each fund, if each fund is invested separately. The details of the estimated income on investments should be filed for reference and check when the income has been actually received. If errors in estimating have been made they may be located by this method, and should be avoided in the future. A lump estimate of income from endowment should not be made under any circumstances. It is only by considering each investment separately that an accurate and reliable estimate can be obtained.

Reference has been made to amortization of premiums. Bonds and mortgages are frequently purchased at a premium; hence, if they are held to maturity there will be a loss in principal to the amount of the premium unless provision is made for it from income by the date of maturity. The theoretical way to make this provision is to set up what is called an amortization account.[1] In actual practice, however, this plan requires a great deal of bookkeeping, altogether incommensurate with the amount involved in the case of a college. A simple method which works well in practice is to find the number of years from the date of purchase to the date of maturity of the security, divide the amount of premium paid by that number, and each year transfer the amount so arrived at from income to principal. The cash so transferred should be deposited in endowment cash and the amount credited to premium account in the endowment funds ledger, if a premium account is kept separate; otherwise, the credit should go to the investment account. The cash transferred then becomes available for investment and the income it produces goes to the credit of endowment income. When the security matures the par value received and the amount of premium repaid by the annual transfers from income should equal the sum paid when the security was purchased. Thus, the final result is the same as in the case of strict amortization, and the yearly division of interest between principal and income differs but slightly, while the amount of labor saved is considerable.

ESTIMATED INCOME FROM GIFTS

Gifts for current purposes are more and more becoming a common source of income for endowed colleges, especially for those affiliated with religious denominations. Only gifts which can be absolutely counted on should be included in the estimates. Gifts may be made for regular expenses

[1] Webster defines *amortization* as follows: "To extinguish a premium or discount involved in the purchase of a security by periodically charging off a portion of the premium or crediting a portion of the discount so as to bring the value to par at maturity, the transfer being made respectively from income to investment, or vice versa; loosely, to bring the value of a security to par in this way."

or for some special item of regular expense. The former class of gifts is most frequently made by a conference, synod, or central body of the denomination supporting the college, or by the alumni association, and reflects a reliable interest and sustained responsibility. Gifts for special items of regular expense are usually made by individuals who are especially interested in the work which they wish to aid.

Sums of money are often given to colleges for a purpose which the college does not consider a part of its regular work. In such instances it is better to include them in a special section among the budget receipts and include appropriations of a similar amount in a separate section among the budget expenditures. By following this method the actual cost of the regular work of the college is not obscured, and the special work can be discontinued promptly when the fund is exhausted.

Some colleges follow the custom of designating as gifts the difference between the estimated expenditure and the estimate of assured income. Such an expectation of obtaining the difference is more often based on hope than on assurance. It is much better to call the difference "Deficiency of Income," which must be provided for by additional income or gifts, or avoided by reducing expenditures.

ESTIMATES OF INCOME FROM MISCELLANEOUS SOURCES

Colleges occasionally rent portions of their plant. Certain buildings or portions may also be used for dining-halls, bookstores, and the like. In all such cases rental should be charged for their use, including interest on cost and depreciation so as to place these activities on a strictly business basis. The amount of rental charged should be included among the estimated income from miscellaneous sources; income which cannot be classified under sections

I, II, and III should also be included in this section. Income of items in Division B of Budget Income should be estimated in the same manner as income from similar items included in Division A.

COMPARISON OF ESTIMATED INCOME WITH INCOME RECEIVED PREVIOUSLY

In making preliminary estimates of budget income it will be found exceedingly helpful to place in parallel columns the amount of income actually received during the past two or three years from each source. If the estimate for the coming year varies appreciably from the actual income of former years the difference should be capable of explanation and justification. There should be no guess work in the estimate. Unreliable estimates of income have often led colleges into trouble which might have been avoided.

BUDGET APPROPRIATIONS

After the amount of income for the coming year has been estimated, the next step in the process of budget making is to make a careful classification of the expenses of the college (strictly educational), if one is not already in use. The following classification may be used (see chapter on "Disbursements," pp. 20–21):

I. Administration and general expense
  1. Executive
    a) President's office
      (1) Salary of president (Laing Fund)
      (2) Salary of secretary and assistants
      (3) Office expenses and supplies
    b) Treasurer's office
      (1) Salary of treasurer
      (2) Salaries of assistants and clerks
      (3) Office expenses and supplies

2. General
   a) Publicity
      (1) Salaries and wages
      (2) Printing, postage and stationery, and expenses
      (3) Advertising
      (4) Travel
   b) Catalogues, reports, and bulletins
   c) Commencement and public occasions
   d) Appropriations to student activities
   e) Annual audit
   f) Miscellaneous

II. Operation and maintenance of physical plant[1]
1. Superintendence
   a) Superintendent's office
      (1) Salary of superintendent
      (2) Salaries of assistants and clerks
      (3) Office expenses and supplies
2. Heating, lighting, water, and power[2]
   a) Engineer's office
      (1) Salary of engineer
      (2) Salaries of assistants and clerks
      (3) Office expenses and supplies
   b) Wages of power-plant employees
   c) Fuel (including freight and cartage)
   d) Materials, supplies, and expense
   e) Repairs to building and equipment
   f) Insurance (including liability)
3. Care and maintenance of buildings
   a) Wages of janitors and artisans
   b) Materials, supplies, and expense
   c) Repairs (not included in *a* and *b*)
   d) Insurance (including liability)

[1] Special funds for care and upkeep of certain buildings must be expended for the purpose provided.

[2] If a central power plant is utilized for furnishing heat, light, water, and power for the educational and other departments of the college, the proportional amount for educational departments of the College of Arts only should be here included.

4. Care and maintenance of furniture
   a) Wages
   b) Materials, etc.
   c) Repairs and renewals
   d) Insurance

5. Care and maintenance of grounds
   a) Wages of employees
   b) Materials, supplies, and expense
   c) Liability insurance

III. Instructional

1. Dean's office
   a) Salaries of deans
   b) Salaries of assistants and clerks
   c) Office expenses and supplies

2. Salaries for instruction
   a) Department of Astronomy
      (1) Professor A. J. Smith
      (2) Assistant Professor H. E. Jones
      (3) Instructor L. A. Black
   b) Department of Botany
      (1) Professor A. B. Coulter
      (2) Instructor M. A. Browne
   c) Department of Latin
      (1) Professor M. N. Rowe (Ellery Fund)
      (2) Etc.
   d) Library
   e) Other departments in detail, as above

3. Departmental supplies and expense
   a) Astronomy
   b) Botany
   c) Etc.

4. Departmental equipment and books
   a) Astronomy
   b) Botany
   c) Etc.

IV. Contingent fund

V. For specially designated objects not a part of the strictly educational work

1. Lectures—extra-curriculum
2. Scholarships
3. Student aid
4. Prizes
5. Athletic field maintenance
6. Athletics
7. Dormitory library
8. Miscellaneous

Grand total of budget expenditures $........

The appropriations in Section V should agree in amount with the income for the same purposes, which was included in Division B of Budget Income, unless the college desires to add from its own funds for any of these objects.

When the budget classification has been determined a careful estimate should be made of the needs of the college for the coming year, item by item, as given in the budget classification. The data for the instructional division are usually collected by the president. The details for each department should be supplied by the person in charge of the department, preferably on a specially prepared form. The form should be arranged to show the needs of the department under the headings of the budget, viz.: (1) for instruction, (2) for supplies and expense, (3) for equipment and books.

If the budget plan is already in operation appropriations of the current year for each of the items should be given in one column, and requests for additional amounts for the coming year inserted in columns parallel thereto—those considered important in one column and those deemed desirable in another.

Any suggested reductions in appropriations should be entered in a separate column. Marginal notes or explanations of the requests may preferably be made on separate sheets. From the material thus supplied the president should make a report to the committee on budget of the changes in appropriations which he approves, classifying the additions as "Important" or "Desirable." He may include everything asked for by a department in one or both of these classes, or he may consider it better to include a portion only. He may also add to the sums requested for certain items and insert amounts for new ones. It sometimes happens that the salary of a member of the faculty is fixed in advance at an amount which increases each year. Thus, it may be \$2,000 for the first year, \$2,500 for the second, and \$3,000 for the third. In making the report to the budget committee any increases of this kind which have already been enacted should be included in a column entitled "Additions Enacted," because they must be cared for before any of the suggested additions classified as "Important" or "Desirable."

The material for budget estimates for administration and general expenses usually may be prepared to best advantage by the treasurer or chief accounting officer. He should of course obtain from the several executive officers a statement of their needs, listed on blanks similar to those used by the instructional division. He should pass upon the several requests and classify them for the budget committee, using the classifications of "Important," "Desirable," and "Deductions," as described above.

Estimates of expenditures for the operation and maintenance of the physical plant should be prepared by the person in charge of the buildings and grounds. The record of expenditures for the past few years, modified to suit changing conditions, will serve as the basis of the estimate. Estimates for repairs and decorations should be based on careful inspection of the buildings. The estimates of this division should be sent to the treasurer or chief business officer to be viséd, classified, and presented in the same manner as the estimates from the other divisions.

Whenever estimates of income from restricted funds are included in the budget income a corresponding amount must be placed among the estimates of expenditures for the particular objects. If during the year the entire sum is not used the balance remaining must not be absorbed by other general expenses, but must be carried forward to the next year's budget.

After the estimates and recommendations of the three divisions have been received and reviewed by the treasurer and financial officer, and the details classified as indicated, a summary should be made of the estimated income and expenditures as revised. The summary may be made as follows:

BUDGET ESTIMATES FOR THE YEAR

SUMMARY

Income:

From students		$ 90,000
From endowment		80,000
a) Unrestricted	$72,000	
b) Restricted	8,000	
From gifts and grants		15,000
From miscellaneous sources		2,000
Total		$187,000

Expenditures:

Divisions	Budget Appropriations for Present Year	Additions				Deductions
		Enacted	Recom'd by Depts.	Important	Desirable	
I. Administration and general	$25,000	$1,000	$1,500	$1,000	$500	$300
1. Executive	16,000	1,000	500	500	....	300
2. General	9,000	......	1,000	500	500	....
II. Operation and maintenance of physical plant	28,000	....	4,500	3,300	700	....
1. Superintendence	3,000	....	500	500	....	....
2. Heating, lighting, etc.	16,000	....	3,000	2,500	....	....
3. Care of buildings	6,000	....	800	300	500	....
4. Care of furniture	1,000	....	200	....	200	....
5. Care of grounds	2,000	....	....	....	....	....
III. Instructional	112,000	4,000	7,000	2,800	3,200	1,000
1. Salaries for instruction	92,000	4,000	5,000	2,000	2,000	1,000
2. Departmental supplies and expense	14,000	....	1,000	300	700	....
3. Departmental equipment and books	6,000	....	1,000	500	500	....
IV. Contingent fund	10,000	....	....	....	....	....
Grand total	$175,000	$5,000	$13,000	$7,100	$4,400	$1,300

Note—From the above it will be noted that the sum of the "Important" and "Desirable" columns does not equal the total recommendations by departments, the President and Treasurer having decided not to include some of the items recommended.

After the summaries of estimated income and expenditures have been made, as above, supported in detail by the reports for each division, a comparison should be made of the total estimated expenditures with the total estimated income. This comparison may be shown as follows:

Total income estimated		$187,000
Expenditures estimated		
Budget appropriations for present year	$175,000	
Add		
Items enacted	5,000	
	$180,000	
Less		
Deductions	1,300	178,700
Amount of income available for additions		$ 8,300
"Important" items recommended		7,100
Amount of income available for "Desirable" items		$ 1,200
Of which there are		4,400
Leaving of "Desirable" items unprovided for		$ 3,200

From such a summary as the foregoing it may readily be seen whether the income estimated is sufficient to care for the estimated needs, and if not to what extent it falls short.

A summary should be made in like manner for the items in Division B of Budget Income and Section V of Budget Expenditures, covering income and expenditures for items not a part of the strictly educational work, and the totals included in the complete budget.

If the budget for the coming year is presented to the committee on budget in detail and in summary by the method here suggested the committee may, with little difficulty, learn of the several recommendations in detail and have a basis for deciding what should be eliminated from the "Important" and "Desirable" items, if the income is insufficient for all. Naturally, items in the "Desirable" column would be among the first to be excluded.

A portion of the estimated income should be reserved for contingencies, under the title of "Contingent Fund" to provide against an unexpected shrinkage in income, and for unforeseen expenditures.

After the committee on budget has carefully studied the estimates of income and the needs of the institution for the coming year, it should incorporate its suggestions in a completed budget and recommend it to the board of trustees for adoption. The board of trustees should give careful attention to the recommendations of the committee on budget, and before approving the budget should assure itself that the estimates of income had been conservatively made and that the appropriations for expenditures were likely to prove adequate to the needs of the institution and that no expenses which would have to be incurred had been omitted.

METHOD OF BUDGET ACCOUNTING AND CONTROL

When the budget has been adopted by the board of trustees its appropriations become available for the expenses of the year stated. Every department should be required to keep its expenditures within the limits of its appropriations. As a means to this end a ledger account should be opened with each item in the budget. If the number of budget items is large enough it may be better to have a ledger for the purpose, but if not, the accounts may be opened in the general accounts ledger, a portion being devoted to this use. If a portion of the general ledger is used for budget accounts it will be necessary to keep a supplementary record of requisitions issued. The use of requisitions is described below. The ledger accounts which record income receipts need no explanation. The ledger accounts for expenditures, however, differ in some respects from the ordinary in that they should record the requisitions approving the incurring of expenditures. For a complete control of expenditures limited to the amount of appropriation the record of bills paid is not adequate. It is necessary to exercise control at the point where the expense is authorized. This control is exercised most effectively by requiring every department to make requisition for proposed expenditures, giving details and estimates of cost based on catalogue prices or certified to by the purchasing agent, which requisitions should be approved by the treasurer or administrative officer before the expense is incurred. Requisitions should not be approved if the appropriations for them are insufficient. In such cases the board of trustees may be asked to increase the appropriation if the need is urgent. The ledger account should show at all times the balance of the appropriation available for future expenses. This balance is found by adding the expenditures made to date to the amount of requisitions unfilled and subtracting their sum from the total appropriation. In order to give these data most conveniently the ledger accounts with the budget expense items should be entered on specially ruled sheets divided in parallel columns somewhat as follows:

Requisitions				Expenditures Paid				Appropriations			
Date	Number	Estimated Cost	Actual Cost	Date	For	Dr.	Cr.	Date	Dr.	Cr.	Balance

The amount of appropriation should be entered to the credit of "Appropriations," and the amount of any changes in it subsequently entered in the "Dr." and "Cr." columns. The amount in the column headed "Balance" will be the total of the appropriation at that time. As requisitions are approved they should be recorded under "Requisitions." Payments made should be entered under "Expenditures Paid"—"Dr." and the amount distributed to the respective requisitions in the column headed "Actual Cost." If the actual cost differs from the estimated cost, the total of the latter column should be adjusted to the actual expense by adding or deducting the difference. If this adjustment is made regularly and promptly the amount of appropriation available may be found by deducting the total of the column "Estimated Cost" from the amount in the column "Balance" of appropriations.

Expenditures for salaries are usually authorized for the entire year in advance and may be covered by one requisition. It is not necessary to make requisitions for every small item of expense. A blanket requisition may be made by every department covering its sundry small needs for an entire month.

The budget method of control here detailed makes it possible to keep a constant check on expenditures, and to ascertain before expenditures are authorized whether there will be money to meet them. Each department may learn the status of its appropriations at any time and at stated times the trustees and officers may be informed of the progress and condition of the budget income and expenditures as a whole.

BUDGET REVISION

Criticism is sometimes made of the budget plan of operation on the ground that it is inflexible, does not provide for unforeseen contingencies, and ties the hands of the college officers by making rigid, specific appropriations before the opening of the year so that they cannot cope with changing conditions as they appear. Whether this criticism is justified depends upon the wisdom exercised in making and in operating the budget. As has been stated already, the budget is devised to enable college authorities to limit their expenditures to their income. If this income is correctly estimated, appropriations made within it, and care then taken that no appropriation is overexpended, there can of course be no deficit. An equation is thus established between the estimated income and the expenses before the opening of the year. It is almost inevitable that changes unforeseen will occur in income, and that expenses will not be exactly as they were forecast. To adjust the budget to these changing conditions and to let it serve adequately it should be revised periodically during the year. The experience of the year to date should be taken as the basis of each revision, and in the light of that experience an estimate made in detail for the remainder of the year. Every item in the budget should be considered and note made of the amount of any probable variation from the original estimate. A list of variations, in detail and in summary, should be made, using a form designed as follows, or somewhat similar:

Division	Item No.	Name of Account	Original Estimate	Present Estimate	Variations from Original Estimate	
					Plus	Minus

The items should be totaled, first by departments, next by divisions, and then the sum totals reached. The result of each revision, supported by the detailed statements, may be shown clearly in the following manner:

REVISION OF BUDGET FOR 1920–21 ON OCTOBER 15

Income:		
Original estimate	$187,000	
Add total estimated variations in excess of original estimate	12,000	
	$199,000	
Deduct total estimated variation less than original estimates	3,940	
Total income—present estimate		$195,060
Expenditures:		
Original estimates, including contingent fund	$187,000	
Add total excess of variations from original estimates	5,500	
	$192,500	
Deduct total amount of variations less than original estimates	4,280	
Total expenditures—present estimate		188,220
Net surplus—present estimate		$ 6,840

From such a summary it may be observed that certain appropriations are inadequate, that others are larger than needed, and that the total expenses for the year will exceed the appropriations by $1,220 according to present estimate. It may also be noted that from present indications the income will be $8,060 more than originally estimated, sufficiently large to care for the excess in expenditures and leave a remainder of $6,840. The board of trustees should therefore be asked to substitute the budget as revised on October 15 for the original one. If instead of the favorable result shown above the revised estimates indicate that the expenses are likely to exceed the income, steps should be taken at once to reduce them—a task which may be undertaken with some promise of success because begun in time. If it be found impossible to make savings in expenditures the board should endeavor to increase the income. Through the instrumentality of periodic revisions trustees and officers may learn the probable financial situation early enough to avoid a deficit. They are also able to adjust the budget to changing circumstances.

The budget should be revised at least twice a year.

CLOSING THE BUDGET

At the end of the year the several budget income and expenditure accounts (with the exception of unused portions of income provided for special objects, which should be carried forward) should be closed into "Surplus or Deficit" account. The surplus, if any, may be used as the trustees desire, or be reserved for future contingencies; the deficit, if any, should be raised immediately if at all possible.

A budget made on the plan described, administered with care and intelligence, expenditures being authorized before indebtedness is incurred, and periodic revision being made, will be found an effective means of controlling expenses.

In conclusion:

1. A budget consists of two parts: (*a*) the estimates of income; and (*b*) the appropriations for expenditures.

2. It should be divided into sections on the basis of the chief functions of the college.

3. It should be made in advance of the period in which it becomes operative.

4. The estimates of income should be on a conservative basis.

5. Appropriations, as a general rule, should not exceed the amount of estimated income.

6. A contingent fund should be set aside from the estimated income to allow for any unexpected shrinkage in receipts, and to provide for unforeseen expenses.

7. Requisitions for expenses should be made and approved before obligations are incurred.

8. Periodic revision of estimates of income and expenses should be made during the year, and adjustments made in accordance therewith.

ACCOUNTING FOR AUXILIARY DEPARTMENTS

In many institutions certain activities or departments, such as the schools of music and of art, stand on a different basis from other regular departments. They may be conducted with the expectation of yielding a profit to the college, or at least without causing it any expense. In order to show the actual results of their operations and to avoid obscuring the cost of the college of liberal arts, the accounts of such activities or departments should be kept separate. But the budget plan should, of course, be adhered to. The classification of receipts and expenditures may follow the general divisions and items used in the college budget, omitting the items which are not applicable to the special department and inserting others which are peculiar to it. The same budget principles should be observed; estimates of receipts and expenditures should be made in advance; requisitions should be approved before expenses are incurred; periodic revisions should be made; ledger accounts should be kept with the items of the budget; and reports should be made regularly to the officers and trustees, showing the financial conditions of the department. All legitimate charges of operation, which in this case should include provision for depreciation of plant and equipment, should be included and credit given for services rendered to other departments or officers of the college.

Any profit made may be applied as follows: (1) to pay obligations secured by the college credit and to repay advances made from the general fund of the college; (2) to create a reserve for expansion of the department, or for contingencies, and to provide against future deficits; (3) to assist the college in its educational work, or for any other purpose thought advisable by the board of trustees.

Should the department be conducted any year at a loss it should be cared for from accumulated surplus or reserve, if there be any, or carried in suspense as a charge against subsequent profits, or paid from the general funds of the college. The account should be accurate and complete so that the financial situation may be shown clearly and definitely.

ACCOUNTING FOR DINING-HALLS, DORMITORIES, ETC.

The third group into which current operations are divided includes dining-halls, dormitories, bookstores, and similar enterprises. Inasmuch as they are usually operated on the theory that they shall be at least self-supporting the accounts should be so arranged and kept that the authorities may know whether they have completely paid their own way. Ledger accounts should be kept with the receipts and disbursements so as to show the principal kinds of each. All costs of operations must be included, such as heat and light, rent, repairs, depreciation, and administration, whether furnished directly or indirectly, and proper credit given for meals and supplies furnished to officers, teachers, and guests. The profits should be applied to repay the college's advances for stock and equipment, until fully repaid. After that has been done they may be reserved for the use and extension of the department itself, or for any of the expenses of the college.

Accounting for these activities presents no unusual features requiring comment other than that there be emphasis on the need of including all receipts and expenditures, both direct and indirect.

ACCOUNTING FOR SUNDRY RECEIPTS AND DISBURSEMENTS OF A GENERAL NATURE

There are certain transactions pertaining to college operation which do not fall into any of the three groups heretofore described. They form a group by themselves. Accounts with stores, consumable material, accounts receivable, and accounts payable, in fact all accounts which show the amount of the college's current assets and current liabilities fall into this group.

To conclude, accounting needs of an endowed college will be met by arranging and classifying the accounts to accord with the three general divisions into which the financial transactions fall, viz.: (1) funds and their investment; (2) plant and equipment funds and their use; (3) current operations.

Accounts of each division should be kept separate, those in division (1) in a special set of books and the cash deposited in a separate bank account; accounts for divisions (2) and (3) may be kept in one set of books and their cash deposited in the general account, except that gifts for new buildings and equipment should be kept under division (1), classified as "Funds for Special Purposes" until expended, the cash meanwhile being kept in the bank account for "Endowment and Funds for Special Purposes."

Accounts of division (3), (current operations) should be divided into four groups: (*a*) containing the income and the expenditures of the college for educational purposes and operated and controlled by the budget system; (*b*) containing the income and expenditures of special music and art schools and operated and controlled by the budget system; (*c*) containing the financial transactions of the undertakings of a business character; (*d*) containing the financial transactions for sundry general purposes which do not fall in groups (*a*), (*b*), and (*c*).

BALANCING AND CLOSING THE LEDGERS

The ledgers should be balanced regularly, at least once a month, and the accuracy of every account proved, especially accounts with funds and with their investments. The latter may be determined by using the equation previously mentioned, viz.: Investments plus cash on hand must equal the fund. It is imperative that this equation be maintained, and if at any time such is not the case the difference must be discovered and adjusted at once. There will be very little chance of error or difference if the cash belonging to "Endowment and Funds for Special Purposes" is kept separate from general account cash. Reports of the financial condition of the college should be furnished preferably monthly, but at least quarterly, to the officers and trustees. The form and arrangement of reports will be discussed in a subsequent chapter.

At the end of the fiscal year the books should be closed in order that the financial result of the year's operation may be learned. The ledger accounts with "Funds" and with "Plant and Equipment," representing as they do assets and liabilities of a fixed nature, remain open since they are of a continuing character and do not concern the current operations of the year. The ledger accounts in division (3), (current operations), should be closed into "Surplus and Deficit Account" (with the exception of the real accounts representing current assets and current liabilities) so as to determine the financial results of operations for the year, and to start the next year's account with a clear slate. The profit or loss on each operating unit or division should be shown separately.

After the books are closed for the year reports showing the financial history for the year and the financial condition of the college at the end of the year should be made. For form and arrangement of the annual financial reports see chapter viii, page 105.

PURCHASING

The increasing annual expenditure for books, apparatus, furniture, and other college supplies necessitates increased care and skill in placing purchase orders. Greater effectiveness will be secured if purchases are considered from the college point of view, and not from that of the departments. For example, the apparent need for additional microscopes and other equipment may be reduced or eliminated by changing class hours to permit a more continuous use of existing apparatus and equipment.

In purchasing laboratory and other college equipment it is well to bear in mind that the most essential college equipment is now quite well standardized and its price is gradually becoming subject to competition. The purchase of specially made equipment is seldom justified, and oftentimes the best illustrative equipment for lecture use can be made with a small expenditure for material through the ingenuity of the faculty member concerned or in a college shop. So-called home-made laboratory equipment is more apt to develop initiative on the part of the student than manufactured apparatus.

In placing orders with firms and individuals the relation of the college to its community and constituency must be recognized. At the same time, economy of expenditure requires the maximum return for every dollar spent. This dual obligation can be recognized by placing orders with merchants and dealers of the college community only after it has been ascertained that they can be placed there as economically as elsewhere.

Placing purchase orders should not be regarded as an incidental clerical task, but rather as one calling for a thorough knowledge of the institution's needs, and of the possible sources of supply and market conditions. If materials are purchased in large quantities, quite possible when information is gathered as to the annual needs of the college before placing orders, better terms can be secured than can be obtained by purchasing for the departments separately.

Files of catalogues and price lists, and properly designed records and forms will facilitate purchasing. It goes without saying that the purchase of supplies and equipment cannot be delegated promiscuously to any member of a college staff. Negotiations for purchases should not be undertaken without authority from the trustees, either through budget authorization, or by specific or general action. After authorization has been obtained, it may be advisable to have the department concerned furnish a detailed description and specifications of the material or apparatus needed, and make suggestions as to the best source of supply.

To make purchases efficiently requires experience. Therefore, all purchases should be made by one college officer and employee only. An exception to this general rule might be made in the purchase of food supplies, which can better be intrusted to the person responsible for the satisfactory and economical operation of the dining-halls.

CHAPTER VII

ACCOUNT BOOKS AND RECORDS

The books and records needed by an endowed college for recording its financial transactions are simple in character and conform in general to those used by other corporations. The bookkeeping system should be double entry. The principal books of account are the journal, the cash book, and the ledger. If the college be small, one set of books may suffice for all its needs, but ordinarily it is better to have a set for one or more groups of its financial transactions, with subsidiary books and records for the principal details.

The journal is used as a book of original entry to record gifts other than cash, to make closing entries, corrections, and transfers from one ledger account to another. A journal regularly kept in stock by bookstores will serve the purpose.

The cash book is used as a book of original entry to record chronologically all cash transactions. For the sake of convenience and of economy one book might be used for cash receipts only, and another one for cash disbursements. The classification of receipts differs from that of disbursements and requires special ruling, and the space needed to record cash receipts rarely equals that required for cash disbursements so that many pages are wasted if both receipts and disbursements are entered in one book and the usual custom is followed of beginning entries on the first of each month on opposite pages.

CASH BOOKS

There should be a set of cash books for the general funds of the college, and another for endowment and funds for special purposes. Receipts from students may be entered to advantage in detail on a subsidiary cash book, and the total of each day's collections transferred to the main cash book. The same principle may be followed whenever the entries for receipts from one source become very numerous. Thus, when collections of subscriptions for endowment and for buildings are being made the details would better be entered in a special cash book and the totals regularly transferred to the endowment cash book. The principal cash book should contain all receipts, but whenever any class or kind of receipt requires many entries a subsidiary book should be used for the details, and the totals only entered in the main cash book.

The cash books for disbursements should be used to record the amount paid and not to distribute the charges to the respective accounts. For that purpose a voucher system is better. When the voucher system is used, only the number of the voucher check and the amount paid need be entered on the cash book, since the details of each payment, the name of the payee, and the account charged will be found on the voucher register.

LEDGERS

The same principles should be observed in the use of the ledgers as in the case of the cash books. Thus, wherever possible, all general accounts should be kept in one ledger only, unless the number of any class or group becomes too large. Then a subsidiary ledger should be used for details. A single ledger will usually be sufficient for the accounts of the Endowment Fund and Funds for Special Purposes.

VOUCHER REGISTER

Payments may be made to best advantage by using the voucher system. The voucher describing the payment and the check discharging it in the best organized institutions are now combined and known as the voucher check. It is well to make the voucher check in duplicate on the typewriter and retain a carbon copy in the files. For the purpose of recording and distributing the payments to the appropriate accounts the voucher checks should be entered on the voucher register and numbered consecutively. All papers and invoices supporting the payments should be attached to the duplicate copy of the voucher check and filed numerically. At the end of each month the voucher register should be totaled and the totals journalized and posted to the respective ledger accounts. A simple card index of payments arranged alphabetically may be maintained, giving the name of the payee, number and amount of voucher check, and date of payment. The use of the voucher register to distribute charges has two main advantages over the use of the cash disbursement book. First, it is possible to prepare for payment and to enter on the voucher register all obligations for the month and to charge the appropriate accounts by journal entry so that the financial reports will show the college's true condition. When the cash disbursement book is used as the distributing medium only the obligations which are actually paid are taken into the accounts. If the college is short of funds, and so has many unpaid bills, the ledger accounts do not show the facts. Second, the voucher register is usually loose-leaf, is more flexible than a bound cash book, and may therefore be changed more readily to accommodate revisions in distribution and new classifications of accounts.

The total amount of the voucher checks entered on the voucher register each month should be posted to the credit of an account entitled "Vouchers Audited" or "Accounts Payable," and to the debit of the same account should be posted monthly the total of voucher checks paid, as shown by the disbursement cash book. Any balance to the credit of the account "Vouchers Audited" represents unpaid voucher checks and should be reconciled and balanced with the unpaid voucher checks held in the office.

PAY-ROLL REGISTER

If the persons employed by the college are few in number they may be paid by voucher check as described above. But if they are many it will be better to use a specially prepared salary check for the purpose. Salary checks should be numbered and entered on a pay-roll register to distribute the charges to the accounts. The pay-roll register should be totaled, journalized, and posted monthly in the same manner as the voucher register. The total amount of the pay-roll for the month should be posted to the credit of a ledger account called "Pay-roll," and the payments for the month as shown on the disbursement cash book, usually in totals only, should be posted to the debit of the account. A pay-roll card index, similar to the one used for voucher checks, may also be maintained.

STUDENT ACCOUNTS

Student accounts may best be kept by the card system. By a little ingenuity cards for registration and ledger accounts may be combined and made to serve the two purposes. The combined card may be so constructed that by means of a perforation in the middle, the portion of the card used as a registration record may be detached and filed in the academic office as soon as the fees are settled, and the part used for the financial record retained in the financial office. Wherever possible the sum to be paid by the student should be determined by a person other than the treasurer, whose duty it should be to make the collections and check the accuracy of the charges. In many colleges a book is used in which are entered the names of the students arranged by classes, the charges against each for tuition, laboratory fees, and other items, and the payments as made. When the number of students is small, this plan may be used without difficulty, but it is neither so convenient nor so flexible as the card system and may become burdensome to operate when the number of students becomes larger. If a charge card, arranged to serve as a ledger account as well, is used, and if students are required to pay their bills in advance, a large amount of work customarily carried on in billing, posting, and collecting is dispensed with. The card system also makes it possible to segregate readily the unpaid accounts, if such there may be.

Numbered receipts should be given for payments made by students, and carbon duplicates kept on file. For the sake of convenience receipts may be obtained in book form, fifty originals and fifty duplicates in a book. The duplicates should be retained in the books and the books filed in numerical order. The receipt books may be utilized as books of original entry and the student's receipt cash book used for recording the collections and distributing them to the respective earnings accounts by totals, thus avoiding the need of copying each payment in the cash book. Where this plan is followed, the reference made on the student's ledger card to details of payment should be by receipt number rather than by cash-book page.

LOOSE-LEAF AND BOUND BOOKS

Loose-leaf records and the card system are well adapted to many phases of college accounting. As stated before, the card system is especially suitable for accounts with students, which may be numerous and usually cover short periods only. It is elastic, flexible, easily arranged in alphabetical or in other order, and may be readily kept up to date by eliminating cards for students not in attendance. Lists of scholarship appointments, of students rendering service, of pay-roll data, of accounts payable, and of accounts receivable, may be kept very satisfactorily on cards. The loose-leaf system is particularly well adapted for recording and distributing collections from students, for recording and distributing cash received in branch offices and business departments, and for registering and distributing voucher checks and pay-roll payments.

The ledger containing the accounts with endowment and funds for special purposes, and the ledger containing the general accounts in full, or in totals only, should be in bound-book form because they show the complete financial status of the college and need to be preserved intact. The principal journals and cash books in which appear a record and history of the receipts of the college, either in cash or in property, their conditions, circumstances, and use, for the same reason should be bound books.

Thus a combination of card, loose-leaf, and bound-book systems is well fitted to college accounting—the card and loose-leaf for that part which is temporary and the bound-book for that which is of a permanent nature.

STATISTICAL RECORDS

In addition to the records which must be kept to show the financial history and condition of the college, others of a statistical and informational character may be used to explain and supplement the data contained in the books of account. Such data may be made exceedingly helpful to the trustees, officers, and friends of the institution, and may stimulate greatly their interest. They are also very useful in assisting the administrative officers to operate the several departments as economically as possible by acquainting them with the details of cost and showing where leaks are occurring. There is scarcely any limit to the number and kind of statistical reports which a resourceful and ingenious financial officer may furnish to the trustees. To be of the greatest value such reports must be based upon and be in harmony with the ledger accounts.

Statistical reports may be used for analyzing the college educational expenses. To illustrate, the expenses may be classified into:

I. Salaries and wages
II. Materials, supplies, etc.

The salaries and wages may be subdivided to show the amount paid to each rank and class, as:

1. Instructional
   a) Professors
   b) Associate professors
   c) Assistant professors
   d) Instructors
   e) Assistants
   f) Lecturers
2. Administration
   a) Officers
   b) Clerks
3. Labor and unclassified service

Expenditures for materials and supplies may be subdivided as follows:

1. Communication
   a) Postage
   b) Telephones and telegrams
2. Stationery and office supplies
3. Publications and printing
4. Travel
5. Equipment repairs, building repairs
6. Supplies for instruction
7. General supplies and expense
8. Rent
9. Interest
10. Insurance

The capital or plant accounts may be divided into:

I. Land and buildings
II. Equipment

Land and buildings may then be subdivided into:

1. Land
2. Buildings and additions
3. Land improvements other than buildings

Equipment may be further divided into:

1. Apparatus
2. Furniture and office supplies
3. Books
4. Machinery and tools
5. Museum specimens, and collections
6. Live stock

In like manner the receipts and expenses of dining-halls, dormitories, and bookstores may be subdivided as to source and kind, and comparison made with the same items for the month or year, or years, previous. By this means the details of operation may be learned and any unfavorable tendency corrected if possible.

Graphic representation of statistical data is now coming into very general use because it enables the reader to obtain at a glance the significance of the subject presented. He can see readily which of several columns is the longest, but it requires a mental effort to determine which of several sets of figures is the largest, and a much greater effort to appreciate and retain the amount of the variation. In presenting reports of the receipts and expenses of the college, and of its business departments so as to show how they are related to those of previous years and the direction in which cost of operation is tending, the business officer should make use of curves and graphs so that the facts may be quickly and vividly perceived.

The advantage of the statistical and informational report is that it may be elaborated or curtailed as circumstances require. Its use may be discontinued if it has served its purpose as respects some one department and devoted to some other department or account needing attention.

The financial officer of the college should be always alert to detect any evidences of excessive cost and of unwise expenditures. He will find that a judicious use of statistical records, showing the details of any account and how they compare with those in previous periods, will assist him in detecting unfavorable tendencies, and will enable him to present them in an intelligible manner to the board of trustees for action.

CHAPTER VIII

FINANCIAL REPORTS

ANNUAL

The fundamental purpose of issuing an annual report of college finances is to have accurate information regarding the financial condition and history of the college available for distribution among the trustees, alumni, officers, friends, and patrons of the institution. Consequently the officer who prepares and presents a clear, concise, and easily understood report does his institution and the public a real service. The press keeps the public informed on those matters of educational policy and interests which have news value, but at best these give a limited view of the college's real work and activities. It is important therefore that the college keep its constituency and the public reliably informed of its policies and achievements. The educational features are usually set forth in the annual catalogue and in the report of the president, while the financial condition and operations are disclosed in the report of the treasurer or financial officer. It is with the latter report that the author is chiefly concerned.

It is often said that financial reports are made to conceal the situation rather than to disclose it. The author does not for a moment imagine that college reports are consciously made on this principle, yet the effect they produce is frequently of that nature. This impression is produced by poor arrangement of subject-matter, lack of coherence and sequence, failure to make cross-references, and by the abundance of inconsequential details. The result is that the reader is confused and wearied. A carefully prepared and well-arranged treasurer's report, giving in clear and orderly fashion the financial situation of the college, its fiscal history during the period under review, with appropriate comment and explanation regarding features of special interest, undoubtedly will be welcomed. Full information inspires confidence and stimulates interest.

CONTENTS OF ANNUAL REPORTS

A study of the annual reports of many college treasurers shows that they contain subject-matter which may be separated into five divisions: (1) survey of results for the year, which usually appears as an introduction; (2) balance sheet; (3) current operations, income, and expenses; (4) gifts; (5) explanatory statements and statistics.

The order in which the foregoing divisions appear in the several reports, where any order is attempted, varies greatly, but the arrangement here suggested appears most logical, for after the introduction reciting the results of the year's operations comes the balance sheet, which contains in totals all the assets and liabilities of the college. It seeks to give a complete picture of the financial condition on the date mentioned, and by cross-reference may be made the key to the subsequent explanatory statements and schedules. After obtaining a picture of the financial condition, one looks for a report of the current operations for the year and the resulting surplus or deficit. The report of current operations thus naturally follows the balance sheet. These are the main divisions of the report because they give the financial condition of the college and the results and details of its operations. The remaining divisions devoted to "Gifts" and to "Explanatory Statements and Statistics" consist for the most part of details of what has already appeared in totals only in the balance sheet and in the statements of "Current Operations."

I. SURVEY OF RESULTS

In the introduction the treasurer should try to give in an interesting manner an account of the financial features of special interest occurring during the year. The result of the year's operations, the increase in assets, if any, and of what it consists, whether of additional endowment or of gifts for buildings and equipment, and the prospect of erecting buildings and other plans for expansion should be mentioned. The principal changes in income and in cost of operation should be referred to and elucidated. The principles followed in keeping the accounts and in making the report should be explained and reference made to the schedule and page on which the details of the subjects alluded to may be found. Mention should also be made of gifts received, and comment made on those of especial significance. The introduction should serve as an interpretation of the report, but should not undertake to re-tell all that is contained in it.

II. THE BALANCE SHEET

The balance sheet is designed to indicate the financial situation of the college at the time indicated. It ought therefore to show all its assets and liabilities properly classified and arranged in a manner easily understood. For this reason it is better to exhibit the amount of assets and liabilities in totals only, and to rely upon subsequent schedules for details. This arrangement makes the picture clearer because the entire situation is given by means of a few items.

The order in which the assets and liabilities appear in the balance sheet is of importance. They should be arranged to convey the information in the sequence in which it is usually sought. The first questions ordinarily asked regarding an endowed institution are: What is the amount of endowment, in what kinds of property and securities is it invested, and what cash, if any, remains uninvested? The next question will probably be: What is the cost of buildings, campus, and equipment? Information as to the amount of current assets and liabilities will then be sought, and what relation they sustain to each other, whether the assets exceed the liabilities, and whether the assets are of a liquid nature. Finally, inquiry will be made regarding accumulated surplus or deficit, and whether there are reserves for future contingencies. An illustration of the order in which the items may appear, and the arrangement of the subject-matter in the balance sheet is given on pages 128–29.

In each of the divisions of the balance sheet: (1) endowment, (2) plant, and (3) current accounts, the total debits and total credits should equal each other. Thus, the sum of permanent funds should be exactly accounted for by investments of cash on hand awaiting investment. Capital provided by gifts or otherwise for plant—that is, for land, buildings, and equipment—should be balanced by the amount invested in the college campus, buildings, and equipment, including furniture and books, plus cash on hand and temporary investments, if any unexpended plant funds are being held. The amount of current funds and liabilities, including reserve and surplus (if any) should be equaled by current assets, advance payments, cash on hand, and deficit (if any). Cross-reference should be made to the numbers of the schedules and pages in which are given the details of the items appearing in totals in the balance sheet.

The figures in the balance sheet must of course be taken from the books of account and represent facts. If strict separation of permanent funds, plant funds, and current funds has not been actually maintained, if endowment has been used in erecting college buildings, and if a portion of endowment cash has been spent for current expenses of the college, or if building funds which should be on hand have been diverted, for a time at least, to some other purpose, the balance sheet must reflect the actual situation. The best way to show in the balance sheet these improper usages and still preserve the three divisions is to indicate among the endowment investments in Division 1 the amount of endowment used for college plant, and show in Division 2, first, the total cost of plant, and then deduct the amount of endowment used for plant as shown in Division 1. If endowment cash has been used temporarily for current purposes that fact should be made clear by showing among permanent assets in Division 1 the amount due to endowment, and placing the sum in Division 3 as a current liability. The use of endowment funds for college buildings and for current expense, even temporarily, is greatly to be deprecated, but unfortunately the custom is somewhat prevalent, especially the use of endowment cash for current purposes, and, as has been pointed out, is due to the fact that endowment and current cash are carried in one bank account. An excellent order and arrangement of the balance sheet cannot overcome a poor condition of affairs and an unwise plan of operation, but by bringing the result of such procedure into clear relief they may make the situation manifest, and so lead to improvement. It is probably safe to say that college trustees in numerous instances are not furnished with statements and reports which show clearly the financial condition and methods of the institutions committed to their trust, for if they were they would not rest until the undesirable features had been eliminated.

By adhering to the order and arrangement of the balance sheet herein suggested, and by following its classification logically, many of the peculiarities and anomalies which are found in published reports would be obviated. For example, ——— College had received an interest-bearing note from a friend for the construction of a swimming-pool. The gift was included among plant funds, but the note was shown among current assets as a note receivable. To anyone familiar with the situation it was perfectly evident that the proceeds of the note could not be used properly for the payment of current bills, the inference which would be drawn from the balance sheet. At ——— University the treasurer had included students' tuition notes among endowment investments because they bore interest and were income-producing. If he had accounted accurately for the endowment he would have discovered that the students' notes were in no way related to it. Moreover, the confusion as to what constitutes endowment would be avoided and the custom of including building funds among endowment, which is sometimes followed, would be prevented by following this order and arrangement. In ——— College report a fund which was being accumulated for the erection of an art building was called building endowment, and included in endowment. Under the plan herein suggested it would have been classified without question in Division 2 as a building fund.

III. CURRENT OPERATIONS

The third division of the report should contain the statements of current operations for the year. First of all should be given the surplus or deficit account, in which should be shown the surplus or deficit of each of the several divisions of the college operated as a separate unit. The amount of the difference between the total of the surpluses and the total of the deficits will be the net surplus or deficit of the college for the year. In subsequent tables and schedules the details of income and expense for each operating unit should be listed. Thus, the income and expenses of the college for educational work should be detailed in one statement. Separate statements for each of the business and self-supporting departments of the college, such as the dormitories, dining-halls, bookstore, and school of music, containing particulars as to their income and expenses, should then follow, care being taken to see that all legitimate charges have been made, including those for heat and light from the central power plant, and rent for space used. A very great diversity exists in reporting current operations. They are frequently combined in one statement in such a way that it is impossible to determine whether the dormitories, dining-halls, bookstore, and separate schools have been conducted at a profit, or whether they have been an expense to the college. In other instances, separate reports are made of these departments, but more or less incompletely. Sometimes no charge is made for heat and light from the central power plant, nor for the use of space, nor for depreciation. In other cases, only one or another of these items is included. In the report of ——— College all current operations were included in one statement and the items arranged in alphabetical order, probably the most illogical and uninforming method possible.

It is of the utmost importance for the trustees and friends of the college to know what is the expense for strictly educational work, and whether other activities are a help or a hindrance. It is only through such knowledge that intelligent action may be taken. It is not necessary nor advisable to report each ledger account separately in the printed annual report. Those of a similar kind may be grouped. For example, there would probably be ledger accounts with every department of the college of arts for instruction, for supplies, and for equipment, but in the printed report the sum paid for instruction in all departments should be given in one item, that paid for supplies in another, and that for equipment in still another.

The accounts in the ledgers should be arranged and kept in such manner that the material for the printed annual report may be taken from the books with ease. The budget method is especially suitable for this purpose because the accounts must be decided in advance and so may be grouped and arranged in an orderly and logical manner. College authorities are often asked by federal and state officers, denominational agencies, educators, and others, for information under the headings of permanent funds, plant, and current accounts, as here suggested. If the accounts are so kept and the annual reports so constructed that the information sought may be answered without difficulty much time and expense will be saved. Many colleges keep their accounts on such an individual system that days and weeks are often consumed in trying to answer questions asked by the persons mentioned, and even when the information is given there are grave doubts of its reliability.

IV. GIFTS

The fourth division of the annual report of the treasurer should contain a list of gifts paid to the college during the year. With endowed colleges gifts form a very important part of the year's financial history and a report of them ought to occupy a prominent position. Gifts are made for one of two purposes: for additional resources, such as buildings, land, equipment, and endowment; or for current uses, such as instructors' salaries and supplies for departments. They should therefore be divided, those for capital purposes being put in one class, and those for current uses in another. The two classes should be further subdivided to show the objects for which the gifts are made. In each of the subdivisions the names of the donors and the amounts of the gifts should be listed in detail. If the statement of gifts is arranged in the manner herein described it will not be necessary to list them again when they appear in other tables and schedules of the report, because the totals of the several subdivisions may be inserted in the appropriate parts of the report and cross-reference made to the statement of gifts for details. If this custom were more generally followed the number of pages in treasurers' reports could be much reduced.

V. EXPLANATORY STATEMENTS AND STATISTICS

In the fifth and final division of the treasurer's annual report, explanatory statements and statistics should appear; they should be called "Schedules" because they are used to furnish details and explanations of items which have appeared in Division 2 (the balance sheet) and in Division 3 (statement of current operations).

Since the statements in those two divisions show the college's financial condition and history for the year, and are therefore of prime importance, it is better to designate them "Tables." Practically every item given in the balance sheet in total should be explained in detail by a subsequent schedule. Thus, while in the balance sheet investments of permanent funds may be given in one sum, the schedule of investments should indicate the several kinds, and, if thought desirable, the particular investments of each kind. In this way full publicity may be given to the manner in which the funds are invested. The schedule of the plant should give a list of the buildings and their cost, the dates of erection, the kind and cubic content, the cost of land used for campus and its extent, and also the cost of equipment and furniture. In like manner, details of endowment and special funds should be reported in separate schedules, which should indicate the name of each fund, its amount, and the object for which it was given. Endowments should also be divided into restricted and unrestricted. Each of these classes should be further subdivided and grouped according to object. Other items in the balance sheet and current operation tables requiring elucidation should be explained at length in schedules and connected with the tables by cross-reference.

Statistics furnished may be of various kinds, depending upon the subjects which are thought to be of interest to the readers. In some reports statistics of salaries paid, classified by departments and by ranks, are inserted; in others, details of student loan funds are given. Statistics of departmental costs, arranged as to capital and current expenditures, are frequently published. Care should be exercised not to make the report too voluminous through the inclusion of statistics, the interest in which is confined to a few readers.

In general, the treasurer's report should be clear, concise, and complete. Its contents should be arranged in logical order and its terminology not too technical.

Finally, the correctness of the statements in the report should be vouched for by a firm of certified public accountants, whose certificate should be appended.

A treasurer's complete annual report of a hypothetical college, arranged in form and method so as to embody the results and to give effect to the suggestions and principles heretofore stated, has been made and printed on pages 119–63. With the notes and explanations given it is hoped this will be quite clear and readily understood.

FOR TRUSTEES AND OFFICERS

The annual report of the treasurer is primarily designed to inform the friends of the college and any others who may be interested, of its condition and financial history for the year. It should therefore be framed most effectively to accomplish that purpose. Since it is published but once a year, and contains much information in summary form only, it does not meet fully the needs of the trustees and officers who must administer the financial affairs of the college day by day. For them financial reports should be made more frequently in order that they may be kept fully and reliably informed of the financial condition and progress of the college. Only thus can the interest of the trustees be effectively maintained and data be furnished on the basis of which they may take intelligent action. The reports should of course be based on figures in the ledgers and be in harmony with them, and should contain the following information: (1) the status of the current operations and the extent to which the estimates of income and expenditures are being realized, with the amount of variation, if any, from the original estimates; (2) the status of the endowment funds and the amount uninvested; (3) the condition of funds for special purposes and the extent to which the purposes are being carried out; (4) the condition of the current assets and liabilities; (5) the financial situation as a whole.

Information regarding current operations controlled by budget method may be given in a report containing the following: (*a*) the original estimates; (*b*) the pro rata of estimates to date; (*c*) the actual receipts and expenditures to date; (*d*) the outstanding requisitions; (*e*) the relation which the actual receipts and the actual expenditures, including unfilled requisitions, bear to the pro rata of receipts and expenditures, with the amount of excess or shortage; (*f*) the balance available for use after providing for all outstanding requisitions.

The items should be grouped by departments and in summaries and not given in too much detail. In addition to the information here described, a comparison of the total receipts and expenditures for the present year with those of the previous year will be very helpful.

The condition of the endowment funds, the funds for special purposes, the current assets and liabilities, and the financial condition as a whole may be disclosed by a properly constructed balance sheet in which the items are grouped to show the present status. If the college conducts a bookstore, dining-hall, or any other so-called business department, a statement of its financial condition and progress, together with a comparison with that of the previous year should be made.

The reports should be made monthly, or not less often than quarterly, and copies should be sent to every trustee and officer. The officer who prepares the reports should send a letter with them calling attention to significant features, and to any matter which in his judgment requires attention.

STATISTICAL REPORTS

In addition to the reports which the treasurer should make regularly, whenever occasion demands he should also make reports regarding the financial condition of any department which he may think needs attention. For example, if the dining-halls are losing money, a detailed report of their financial history for the past several years, giving particulars of the income and expenses and their tendencies, will enable the trustees to act intelligently. If the report discloses the fact that expenses are higher than they ought to be, steps may be taken to improve the management; if the patronage is falling off inquiry may be made regarding the attractiveness and variety of the food furnished, or if the patronage is still as great as in the past, but the receipts relatively smaller, it may be decided to increase the prices.

Statistical reports of a similar kind might well be furnished frequently to the trustees, showing the relation between the market price and book value of investments held, its trend, and any other features of interest, the nature of the investments and the varying ratios which the different kinds bear to the totals in the several years. The operation of the dormitories, bookstore, and music school may also be reported upon and comparisons made of their operations for a number of years.

TRUST FUND REPORTS

Although the trust funds held by an endowed college may be many in number, trustees are rarely acquainted in detail with what they are, their objects, conditions, and how the latter are observed. New trustees who are not familiar with the trusts and their history are being elected constantly in the place of trustees who have served for many years and drop out on account of limited term, age, or death. The funds, however, should be carefully preserved and the conditions scrupulously observed. Unless the trustees know what the conditions are, how can they be sure that they are being fulfilled? But as trustees, such is their duty.

An endowed college is usually seeking gifts, and it should for every reason manage those it has in the wisest manner, carefully observing the conditions attached to them. To acquaint the trustees with the conditions of trust funds and to keep them informed regularly that the conditions are being fulfilled, a report of one or more trusts should be made to the trustees monthly. The report should give the letter and date of gift, the history of the trust, whether the gift was made in cash or in securities, what the present investments belonging to the fund are (if they are kept separate), the conditions of the trust, and the way in which the conditions are being fulfilled. For example, if the trust be for a fellowship, the names of the fellows appointed since the date of the last report should be given.

By means of such reports the trustees may in course of time become fully acquainted with all the trusts which the college holds and assure themselves that the conditions are being observed. Another advantage may be derived from making the reports. In the course of time the reports constitute a file embodying in convenient form the history and execution of each trust. The administrative officers of the college may also profit from these reports because by the recital of the manner in which the conditions of the trusts have been executed any omissions may be observed immediately and provision made against their recurrence.

CHAPTER IX

ANNUAL REPORT OF THE TREASURER

To the Trustees of ——— College:

GENTLEMEN:

I have the honor to present herewith the sixty-fifth annual report of the treasurer for the fiscal year which ended June 30, 1921, in which is given the financial history of the college for the year and its financial condition at its close.

It gives me pleasure to state that the financial results were satisfactory, particularly so when one considers the economic unrest of the year, as a result of the Great War.

SURPLUS AND INCREASE IN ASSETS

The current operations for the year resulted in a surplus of $3,293.88. The sources of the surplus are shown in the table on the next page. By action of the executive committee $1,059.43 of the surplus has been added to "Reserves" for dormitories and dining-halls, equipment and expense; $289.97 to annuity income reserve; and the remainder, $1,944.48, to accumulated surplus, which now stands at $3,216.14. In accordance with the policy of the board, rental has been charged to the dormitories, dining-halls, and School of Music for buildings and equipment used equivalent to interest at 4 per cent per annum on cost plus a sum for the estimated amount of depreciation, and credited to college income.

It will be noted from the following table that the receipts and expenditures of the college as a whole for the year were as follows:

RECEIPTS AND EXPENDITURES FOR THE YEAR FOR ALL PURPOSES

CURRENT

	Receipts	Expenditures	Surplus	Excess Expenditures Provided from Balance Brought Forward from Last Year
College of Liberal Arts (Table III, p. 131)	$191,628.79	$190,642.45	$ 986.34	....
Dormitories (Table V, p. 136)	16,725.00	16,683.57	41.43	....
Dining-halls (Table VI, p. 137)	31,681.11	30,663.11	1,018.00	....
Bookstore (Table VII, p. 138)	21,092.93	20,404.88	688.05	....
School of Music (Table VIII, p. 139)	14,905.11	14,635.02	270.09	....
Annuities income (Schedule VI, p. 156)	9,386.97	9,097.00	289.97	....
	$285,419.91	$282,126.03	....	....
Surplus (Table II, p. 130)	....	....	$3,293.88	....
Reserves (Schedule X, p. 162)	4,149.40	....	4,149.40	....
Special funds for designated purposes (Schedule VIII, p. 158)	315.72	222.50	93.22	....
Special lectures (Schedule VIII, p. 158)	....	1,500.00	....	$1,500.00
General funds for designated purposes (Schedule IX, p. 161)	47,227.78	47,280.64	....	52.86
	$337,112.81	$331,129.17	$7,536.50	$1,552.86
Deduct duplications and transfers	49,088.30	47,738.90	1,349.40	....
Net totals	$288,024.51	$283,390.27	$6,187.10 1,552.86	$1,552.86
Increase in current assets from operation	....	....	$4,634.24	....

CAPITAL

	Receipts	Expenditures	Losses	Net Increase in Capital Assets
Endowment (Schedule V, p. 152)	$29,999.69	$ 281.57	$7,749.13	$21,968.99
Endowment annuities (Schedule VI, p. 155)	4,000.00	3,000.00	....	1,000.00
Buildings and equipment (Schedule VII, p. 157)	31,839.49	49,108.60	....	31,839.49
Books added to property paid for from income	3,050.00	....	....	3,050.00
	$68,889.18	$52,390.17	$7,749.13	$57,858.48
Deduct transfers	3,000.00	3,000.00	....	....
	$65,889.18	$49,390.17	$7,749.13	....
Increase in capital assets	....	....	....	$57,858 48

Receipts for current purposes	$288,024.51	
Expenditures for current purposes	283,390.27	
Resulting in an increase in assets from current operations of		$ 4,634.24
The college also received for capital purposes	$ 65,889.18	
Which was diminished by expenses and losses of	8,030.70	
Making a net increase in capital assets of		57,858.48
A total increase of assets during the year of		$62,492.72

Expenditures amounting to $47,347.80 were made for enlarging, remodeling, and furnishing dormitories and residences, an improvement made possible by the generosity of Mr. Samuel Chapin. To procure preliminary plans for the Students' Christian Association and Recreation Building, $1,760.80 was expended. The total of these two sums, $49,108.60, was provided from gifts and interest thereon.

The increase of the college assets, $62,492.72, consisted for the most part of gifts. The gifts for capital purposes amounted to $53,881.61, of which $27,420.21 was for additional endowment, and $26,461.40 for buildings and equipment. In Table X, page 141 of this report, will be found a detailed list of the donors, the amount of their gifts, and the purposes for which they were contributed. The college extends its grateful thanks to its friends for these evidences of their interest in the work of the college. Mrs. Mary W. Ladd made a most acceptable gift of $4,000 for scholarships, subject to an annuity of $200 during her lifetime. Owing to the death of Mr. N. Clark his contribution of $3,000 made in 1904 for scholarships on an annuity basis now becomes available endowment. The net profits on the sale of endowment securities amounted to $2,830.35, which has been added to the consolidated endowment funds. Stock to the amount of $7,000, which had been given to the college as a part of the Hamm Fund for student aid was charged off as found to be of no value.

The net additions to assets may be classified as follows:

Net additions to endowment	$22,968.99
Net additions to plant funds	34,889.49
Net additions to current assets	4,634.24
Total	$62,492.72

The total investments held by the college on June 30, 1921, were $2,065,293.43, belonging to

Endowment funds	$1,749,243.43
Endowment annuity funds	158,300.00
Building and equipment funds	143,750.00
Current funds (Certificate of deposit)	14,000.00
	$2,065,293.43

Owing to the depression in value of bonds and stocks the book value on June 30 was $15,040.60 in excess of the market value.

CURRENT OPERATIONS—COLLEGE OF LIBERAL ARTS

The income and expenses of the college for the year were the largest in its history. Notwithstanding the increase in salaries of administrative officers and faculty and the greater cost of all kinds of services and materials, the receipts were sufficient to pay all expenses and provide a surplus. The increase in receipts was due to an additional enrolment of twenty students and to an advance in the tuition fee from $120 to $150 per year, made necessary by increased cost of operation. Investments also yielded a larger income because of more endowment and higher interest rates.

By reference to Table IV, page 135, an analysis of the income and the expenses of the College of Liberal Arts as to source, purpose, and percentage of total, it will be seen that the income from students comprised 38.8 per cent of the total, an increase of 5.1 per cent, due mainly to the 25 per cent increase in tuition fee, and that income from endowments furnished 46 per cent of the total—a decrease of 3.1 per cent. It may also be noted that the salaries for instructional departments constituted 58.5 per cent of the total expenses, an increase of 1.3 per cent owing to increases in salary, while the cost of operation and maintenance of the physical plant was 16.8 per cent, a reduction from the previous year of 1.2 per cent. The instructional expense of all kinds was 62.8 per cent of the total, an increase of 1.6 per cent. It is gratifying to learn that a greater amount of the college income is being devoted to educational work, the real purpose of the college, and a smaller proportional sum to administration and operation of plant.

The average attendance for the year was 464, and the total cost of running the college $190,642.45, a cost per student of $410.87. The average receipts from each student were $160.18, leaving $250.69 to be provided from other sources. For 1919–20 the cost per student was $391.36, and the average receipts from each student $130.36, making it necessary to obtain from other sources $261 on account of each student. For each student, therefore, the college contributed on the average $10.31 less of the cost of his education than it did in 1919–20.

In computing the cost of furnishing education to each student, in accordance with prevailing custom, no charge has been made for interest on cost of plant, nor for an amount to provide for its depreciation. If it is desired to include such charges, the amount invested in educational plant may be found by reference to Schedule III, page 149.

SELF-SUPPORTING DEPARTMENTS

As has been shown already, the activities which the college endeavors to operate on a self-supporting basis have met that expectation. The operations of the dormitories (Table V, page 136), however, barely met expenses and returned 4 per cent on cost and 2 per cent for depreciation. In fact, Carver Cottage failed to do so by $180.07. The net return has been carried to "Reserves" for future expenses and equipment of the dormitories. It is evident that unless room rents are increased, or expenses reduced, either of which will be difficult to do, it will not be long before the dormitories will not yield 4 per cent on cost and provide for depreciation.

The dining-halls (Table VI, page 137) yielded a surplus of $1,018, which, in accord with your policy, has been reserved for their future needs. The college does not plan to make any profit for its own use from the boarding department.

The bookstore (Table VII, page 138) paid all expenses and yielded a profit of $688.05, which has been carried to college "Surplus" for such use as the trustees may see fit. The sales of the store were $21,092.93, an increase of $3,084.72.

The School of Music (Table VIII, page 139) paid all expenses, provided $800 for equipment replacement, and a net profit of $270.09, which has been put into college "Surplus."

Annuity investments (Schedule II, page 148) produced income sufficient to pay all annuities and provide a remainder of $289.97, which has been put into annuity income reserve. This disposition of the surplus income is in harmony with the custom of the board that a reserve may be established so that annuities should not in any degree, even in a year when the payments exceed the income, diminish the income available for current purposes.

BUILDING ADDITIONS AND NEW PLANS

As stated on a preceding page, changes and additions to dormitories and residences were made (Schedule VII, page 157) to bring them up to modern standards. The cost, $47,347.80, was defrayed from a fund generously provided by Mr. Samuel Chapin. The fund donated by Mr. Thomas French for a new building for the fine arts is being allowed to accumulate until building costs shall not exceed the sum available. It now stands at $52,250. He has added $5,000 to his contribution for art equipment and collections, which, with accumulated interest, now amounts to $31,250. Most satisfactory progress has been made in obtaining funds for the Students' Christian Association and Recreation Building,

$20,000 having been contributed during the year by Mrs. Swift and Messrs. Bond, Smith, and Wilder. The fund and interest aggregate $63,360.45. Of this sum $1,760.80 was expended during the year for preliminary plans and expenses. Until operations are commenced the funds have been temporarily invested in good short-term securities (Schedule IV, page 151).

GIFTS

Gifts actually paid to the college during the year totaled $71,745.61 (Table X, page 141). Of this amount $53,881.61 was for capital, and $17,864 for current uses. Acknowledgment has been made to the donors, and the appreciation of the college is hereby publicly expressed for these welcome gifts for its needs. The total gifts received from the founding of the college to date for all purposes amount to $2,961,382.50. A complete list of gifts to June 30, 1920, may be found in an appendix to the Treasurer's Report for 1919–20.

AUDITOR'S REPORT OF EXAMINATION

The accounts, cash, and securities of the college have been examined and found correct by Messrs. Jones and Mudge. Their certificate will be found on page 127.

Respectfully submitted,

JOHN BOUNTY, *Treasurer*

CERTIFICATE OF AUDITOR

We have audited the accounts of ——— College for the year ended June 30, 1921, and now certify that Tables I to X and Schedules I to XI, compiled by the treasurer, are in accordance therewith, and also that the Balance Sheet, Table I, in our opinion, exhibits a true statement of the financial condition of the college as at that date.

We have examined or traced by correspondence all the securities covering the investments and found them in order.

The books are well kept and the files are in good order.

JONES & MUDGE,

Certified Public Accountants

CHICAGO, ILLINOIS
September 1, 1921

FINANCIAL TABLES

TA

BALANC

The financial situation of ——— College at th

Dr.			
Permanent Fund Assets			
Investments of endowment funds (Schedule I, p. 144)	$1,749,243.43		
Cash awaiting investment (Schedule V, p. 152)	18,181.34		
		$1,767,424.77	
Investments of annuity funds (Schedule II, p. 148)	$ 158,300.00		
Cash awaiting investment (Schedule VI, p. 155)	1,200.00		
		159,500.00	
			$1,926,924.7
Plant Assets			
Buildings	$ 512,580.80		
Grounds	89,000.00		
Books, equipment, and furniture (Schedule III, p. 150)	149,262.70		
		$ 750,843.50	
Investments of building funds (Schedule IV, p. 151)		143,750.00	
Cash on hand (Schedule VII, p. 157)		1,349.65	
			895,943.1
Current Assets			
Cash			
Special purposes (Schedule VIII, p. 158)	$ 4,054.78		
General purposes, certificate of deposit	14,000.00		
General purposes	9,549.79		
		$ 27,604.57	
Receivables			
Notes receivable (Schedule VIII, p. 158)	$ 2,852.76		
Other notes receivable	840.15		
Accounts receivable	890.00		
		4,582.91	
Materials and supplies			
Bookstore, p. 138	$ 1,602.01		
Dining-halls, p. 137	1,755.00		
Dormitories, p. 136	635.18		
Power plant, coal, etc., p. 140	1,315.00		
Store-room	1,503.08		
		6,810.27	
Insurance Premiums			
Unexpired		839.20	
			39,836.9
Total			$2,862,704.8

D SCHEDULES

I

ET

of the fiscal year June 30, 1921, is as follows:

Cr.			
IANENT FUNDS			
.dowments (Schedule V, p. 152)		$1,767,424.77	
.dowment funds subject to annuities (Schedule VI, p. 155)...		159,500.00	
			$1,926,924.77
IT FUNDS			
vested in plant			
a) From gifts and accumulations....................	$ 674,159.40		
b) From current funds........	74,923.30		
		$ 749,082.70	
ilding equipment funds (Schedule VII, p. 157)..............		146,860.45	
			895,943.15
RENT FUNDS AND LIABILITIES			
rrent Liabilities			
Room deposits...............	$ 750.00		
Key deposits................	200.00		
Accounts payable............	7,462.13		
		$ 8,412.13	
nds for designated purposes			
Special (Schedule VIII, p. 158).	$ 6,907.54		
General (Schedule IX, p. 161)..	5,570.46		
		12,478.00	
come credits			
Room rent paid in advance....		850.00	
Reserves (Schedule X, p. 162).		14,880.68	
Surplus (Table II, p. 130).....		3,216.14	
			39,836.95
Total..................			$2,862,704.87

TABLE II

Surplus and Deficit Account 1920–21

The current operations of the college resulted in a total surplus of $3,293.88, shown below:

	Surplus	Deficit
College of Liberal Arts (Table III, p. 134)	$ 986.34	....
Dormitories (Table V, p. 136)	41.43	....
Dining-halls (Table VI, p. 137)	1,018.00	....
Bookstore (Table VII, p. 138)	688.05	....
School of Music (Table VIII, p. 139)	270.09	....
Annuities (Schedule VI, p. 156)	289.97	....
Surplus from current operations for the year	$3,293.88	....

Disposition of Surplus—		
Carried to dormitory equipment and expense reserve	$ 41.43	
Carried to dining-hall equipment and expense reserve	1,018.00	
Carried to annuity income reserve	289.97	
Total carried to "Reserves" (Schedule X), p. 162	$1,349.40	
Balance carried to surplus	1,944.48	
		$3,293.88
Balance in surplus July 1, 1920	$1,271.66	
Added this year	1,944.48	
Balance in surplus July 1, 1921, carried to "Balance Sheet," p. 129	$3,216.14	

TABLE III

College of Liberal Arts—Income

The income for educational purposes for the year was $191,628.79, and for certain special objects in connection with the college it was $15,517.04, as follows:

	This Year 1920–21	Last Year 1919–20	Increase	Decrease
1. Student fees				
Tuition	$ 69,576.30	$ 53,329.50	$16,246.80	....
Laboratory	2,640.15	2,610.30	29.85	....
Matriculation and graduation	1,950.00	1,800.00	150.00	....
Other fees and fines	156.18	140.92	15.26	....
	$ 74,322.63	$ 57,880.72	$16,441.91	....
2. Income from endowments (net)				
General—unrestricted	$ 54,876.44	$ 52,590.68	$ 2,285.76	....
General—restricted (Schedule IX, p. 161)	33,263.60	31,755.46	1,508.14	....
	$ 88,140.04	$ 84,346.14	$ 3,793.90	....
3. Gifts				
General (Table X, p. 143)	$ 16,130.00	$ 16,630.00	....	$500.00
	$ 16,130.00	$ 16,630.00	....	$500.00
4. Miscellaneous				
Rentals from dormitories, dining-halls, bookstore, etc.	$ 11,675.30	$ 11,675.30	....	....
Sundry receipts	1,360.82	1,290.40	$ 70.42	....
	$ 13,036.12	$ 12,965.70	$ 70.42	....
Total income available for educational expense	$191,628.79	$171,822.56	$20,306.23	$500.00
5. For specially designated purposes not a part of educational expense				
Lectures—extra-curriculum				
Special (Schedule VIII, p. 158)	$ 1,500.00	....	$ 1,500.00	....
General (Schedule IX, p. 160)	280.00	$ 280.00	....	....
Scholarships (Schedule IX, p. 160)	6,900.78	4,500.26	2,400.52	....
Student aid (Schedule IX, p. 160)	2,475.00	2,425.00	50.00	....
Prizes (Schedule IX, p. 161)	310.00	210.00	100.00	....

TABLE III—*Continued*

College of Liberal Arts—Income

	This Year 1920–21	Last Year 1919–20	Increase	Decrease
Dormitory (Underwood) Library (Schedule IX, p. 161)	$ 784.00	$ 784.00	....	....
Athletics (Schedule IX, p. 161).....................	3,001.40	2,560.18	$ 441.22	....
Athletic field (Schedule IX, p. 160)..................	265.86	640.34	....	$374.48
	$ 15,517.04	$ 11,399.78	$ 4,491.74	$374.48
Total income.............	$207,145.83	$183,222.34	$24,797.97	$874.48

TABLE III—*Continued*

College of Liberal Arts—Expense

The expenditures for educational purposes for the year were $190,642.45, and for special purposes connected with the college, but not a part of educational cost, $15,517.04.

	This Year 1920–21	Last Year 1919–20	Increase	Decrease
Administration and general				
1. Executive offices				
Salaries	$ 26,640.50	$ 25,340.00	$ 1,300.50	....
Supplies and expense	4,360.20	3,860.18	500.02	....
2. General				
Catalogues and publications	2,450.55	2,043.91	406.64	....
Publicity	2,590.70	2,140.63	450.07	....
Commencement and public occasions	1,743.48	1,721.31	22.17	....
Miscellaneous	960.12	1,094.53	....	$134.41
	$ 38,745.55	$ 36,200.56	$ 2,679.40	$134.41
Operation and maintenance of physical plant (Schedule XI, p. 163)	$ 32,068.60	$ 31,288.15	$ 780.45	....
Instructional				
1. Salaries				
College	$103,218.75	$ 92,329.93	$10,888.82	....
Library	2,892.30	2,584.23	308.07	....
Sherman Museum	1,041.75	1,035.25	6 50	....
Premiums—retiring allowances	4,430.00	3,430.00	1,000.00	....
2. Supplies and expenses				
College	2,628.42	2,463.71	164.71	....
Library	304.80	296.18	8.62	....
Sherman Museum	75.30	85.12	....	$ 9.82
3. Equipment and books—educational				
College	2,402.13	2,143.97	258.16	....
Library	2,615.24	1,875.14	740.10	....
Sherman Museum	219.61	33.50	186.11	....
	$119,828.30	$106,277.03	$13,561.09	$ 9.82
Total expense for educational purposes	$190,642.45	$173,765.74	$17,020.94	$144.23

TABLE III—*Continued*

COLLEGE OF LIBERAL ARTS—EXPENSE

	This Year 1920–21	Last Year 1919–20	Increase	Decrease
Brought forward................	$190,642.45	$173,765.74	$17,020.94	$144.23
4. For specially designated purposes				
Lectures—extra-curriculum				
Special (Schedule VIII, p. 158)................	$ 1,500.00	....	$ 1,500.00	....
General (Schedule IX, p. 160)................	280.00	$ 280.00	....	....
Scholarships (Schedule IX, p. 160)..................	6,900.78	4,500.26	2,400.52	....
Student aid (Schedule IX, p. 160)..................	2,475.00	2,425.00	50.00	....
Prizes (Schedule IX, p. 161)..	310.00	210.00	100.00	....
Dormitory (Underwood) Library (Schedule IX, p. 161)	784.00	784.00	....	....
Athletics (Schedule IX, p. 161)	3,001.40	2,560.18	441.22	....
Athletic field (Schedule IX, p. 160)..................	265.86	640.34	....	$374.48
	$ 15,517.04	$ 11,399.78	$ 4,491.74	$374.48
	$206,159.49	$185,165.52	$21,512.68	$518.71

SUMMARY

Total income (p. 132)............	$207,145.83	$183,222.34	$24,797.97	$874.48
Total expense (see above)........	206,159.49	185,165.52	21,512.68	518.71
Deficit 1919–20.............	....	$ 1,943.18	....	....
Surplus 1920–21 (Table II, p. 130)..................	$ 986.34	....	$ 3,285.29	$355.77

TABLE IV

Analysis of Income and Expense of College of Liberal Arts

Analysis of the income and expenses (excluding items for specially designated purposes of $15,517.04 in 1920-21 and $11,399.78 in 1919-20, which do not enter into the cost to the college of furnishing instruction to the students) shows the following as to source, purpose, and percentage of total:

Income

	1920–21		1919–20	
	Amount	Percentage	Amount	Percentage
Student fees	$ 74,322.63	38.8	$ 57,880.72	33.7
Income from endowments	88,140.04	46.0	84,346.14	49.1
Gifts	16,130.00	8.4	16,630.00	9.7
Miscellaneous (rentals, etc.)	13,036.12	6.8	12,965.70	7.5
Totals	$191,628.79	100.0	$171,822.56	100.0

Expenses

	1920–21		1919–20	
	Amount	Percentage	Amount	Percentage
Administration and general				
Executive offices	$ 31,000.70	16.3	$ 29,200.18	16.8
General	7,744.85	4.1	7,000.38	4.0
Operation and maintenance of physical plant	32,068.60	16.8	31,288.15	18.0
Instructional				
Salaries	111,582.80	58.5	99,379.41	57.2
Supplies and expenses	3,008.52	1.6	2,845.01	1.7
Equipment and books	5,236.98	2.7	4,052.61	2.3
Totals	$190,642.45	100.0	$173,765.74	100.0

TABLE V

Dormitories

The current operations of the dormitories for the year 1920–21 resulted in a gain from the two larger buildings and a loss on the cottage, a net gain of $41.43, as shown below:

	Christie Hall	Underwood Hall	Carver Cottage	Totals
Receipts				
Rent of rooms	$ 7,670.00	$ 7,480.00	$ 1,575.00	$16,725.00
Disbursements				
Supplies, including inventory of July 1, 1920	$ 628.32	$ 664.80	$ 282.30	$ 1,575.42
Less inventory of supplies of June 30, 1921	235.20	267.53	132.45	635.18
Net cost of supplies used	$ 393.12	$ 397.27	$ 149.85	$ 940.24
Services	1,432.41	1,596.29	288.31	3,317.01
Repairs—buildings and equipment	500.00	528.26	39.78	1,068.04
Rent, including charge for depreciation	3,364.20	3,264.00	780.00	7,408.20
Heat	1,200.00	1,000.00	300.00	2,500.00
Light	300.00	280.00	108.00	688.00
Water	108.00	200.00	52.00	360.00
Insurance	131.40	108.80	26.00	266.20
Miscellaneous	72.50	52.25	11.13	135.88
Total	$ 7,501.63	$ 7,426.87	$ 1,755.07	$16,683.57
Gains	$ 168.37	$ 53.13	....	....
Loss	....	....	$ 180.07	....
Net gain carried to "Surplus Account," Table II, p. 130	....	....	....	$ 41.43

TABLE VI

Dining-Halls

The current operations of the dining-halls for the year 1920-21 yielded a net gain of $1,018, as shown below:

	Christie Hall	Underwood Hall	Totals
Receipts			
From meals served	$14,652.63	$17,028.48	$31,681.11
Disbursements			
Subsistence and supplies, including inventory of July 1, 1920	$ 7,313.24	$ 8,937.17	$16,250.41
Less inventory of June 30, 1921	820.00	935.00	1,755.00
Net cost of supplies and subsistence used	$ 6,493.24	$ 8,002.17	$14,495.41
Services (salaries and wages)	4,200.00	5,026.00	9,226.00
Laundry	997.23	984.18	1,981.41
Repairs	497.90	390.00	887.90
Rent, including charge for depreciation	975.10	1,022.00	1,997.10
Heat	570.00	630.00	1,200.00
Light	142.00	180.00	322.00
Water	148.00	172.00	320.00
Insurance	68.00	70.00	138.00
Miscellaneous	48.16	47.13	95.29
Total	$14,139.63	$16,523.48	$30,663.11
Gains	$ 513.00	$ 505.00	....
Total gain transferred to "Surplus Account," Table II, p. 130	....	....	$ 1,018.00

TABLE VII

College Bookstore

The current operations of the college bookstore for 1920–21 resulted in a net gain of $688.05, as shown below:

Receipts		
Sales		$21,092.93
Disbursements		
Books and merchandise, including inventory of July 1, 1920	$20,401.23	
Less inventory of June 30, 1921	1,602.01	
Cost of stock sold	$18,799.22	
Salaries and wages	1,233.42	
Freight and cartage	83.24	
Repairs	16.00	
Rent, including charge for depreciation and interest	120.00	
Postage	30.00	
Insurance	75.00	
Miscellaneous	48.00	
Total		$20,404.88
Gain transferred to "Surplus Account," Table II, p. 130		$ 688.05

TABLE VIII

School of Music

The current operations of the School of Music for the year 1920–21 resulted in a total net gain of $270.09, as shown below:

Receipts		
Fees	$13,037.83	
Concerts and recitals	1,630.00	
Miscellaneous	237.28	
Total		$14,905.11
Disbursements		
Administrative		
a) Salaries	$ 1,280.00	
b) Supplies and expense	128.00	
General		
a) Concerts and recitals	1,780.00	
b) Miscellaneous	86.00	
Operation and maintenance of physical plant		
a) Equipment repairs	246.52	
b) Reserve to replace equipment (credited to "Equipment Reserve")	800.00	
c) Heat	760.00	
d) Light	290.00	
e) Water	80.00	
f) Rent	2,150.00	
g) Insurance	80.00	
Instructional		
a) Salaries	6,718.50	
b) Supplies and expense	236.00	
Total		14,635.02
Gain transferred to "Surplus Account," Table II, p. 130		$ 270.09

TABLE IX

Heat, Light, Power, and Water Account

The total cost of supplying heat and water, electric light and power for the year 1920–21 amounted to $21,535. The itemized list of disbursements for supplying this service, together with the distribution of this cost between the academic and the income-producing activities of the college is shown below:

Disbursements

Engineer's office		
Salaries	$1,920.00	
Supplies and expense	38.00	
Wages of power-plant employees	2,945.00	
Fuel and freight, including inventory of July 1, 1920	9,830.00	
Electric current	2,888.00	
Water	1,132.00	
Repairs—building and equipment	1,563.00	
Reserve to replace boilers and equipment (credited to "Equipment Reserve")	2,000.00	
Supplies and expense	498.00	
Insurance	36.00	
		$22,850.00
Inventory of coal and supplies, June 30, 1921		1,315.00

Total expense of year 1920–21 .... $21,535.00

DISTRIBUTION OF TOTAL EXPENSE

	Heat	Light and Power	Water	Totals
College	$13,055.00	$ 1,588.00	$ 372.00	$15,015.00
School of Music	760.00	290.00	80.00	1,130.00
Dormitories	2,500.00	688.00	360.00	3,548.00
Dining-halls	1,200.00	322.00	320.00	1,842.00
Totals	$17,515.00	$ 2,888.00	$ 1,132.00	$21,535.00

Note.—A proportionate amount of interest on cost of power plant has been included in sums charged to the School of Music, dormitories, and dining-halls, and deducted from the college's share of expense.

TABLE X

Gifts Paid In during the Fiscal Year Ending June 30, 1921

The total gifts received by the college during the year for additional construction, equipment, and for current uses amounted to $71,745.61, distributed as follows:

SUMMARY

I. Capital account		
1. For additional endowment	$27,420.21	
2. For buildings and equipment	26,461.40	
		$53,881.61
II. Current uses		17,864.00
Total		$71,745.61

DETAILS

I. Capital account

1. For additional endowment

a) General

1908 Fund		
James Brown	$ 300.00	
Mary Grey	100.00	
John Lamson	17.00	
	$ 417.00	
1913 Fund		
Jane Jones	$ 2.43	
Patriotic Fund		
William Amster	50.00	
Class of 1910		
Charles Henry	40.00	
Undesignated		
A friend	1,150.00	
Alumni Association		
First instalment	21,148.78	
		$22,808.21

TABLE X—*Continued*

Brought forward		$22,808.21
b) Restricted		
Sherman Museum		
James T. Sherman	$ 612.00	
Scholarships		
Mary W. Ladd, for tuition of boys living in Smith County (subject to 5 per cent annuity)	4,000.00	
		4,612.00
		$27,420.21
2. For buildings and equipment		
a) Buildings		
Students' Christian Association and Recreation Building		
Mrs. A. B. Swift	$15,000.00	
Henry Bond	3,500.00	
Justin Smith	1,000.00	
Charles Wilder	500.00	
	$20,000.00	
Remodeling dormitories and residences		
Samuel Chapin (to complete fund)	1,373.60	
b) Equipment		
Art Department		
Additional sum from Thomas French	5,000.00	
Carried forward	$26,373.60	$27,420.21

TABLE X—*Continued*

Brought forward	$26,373.60	$27,420.21	
Dormitories and residences furniture			
Samuel Chapin (to complete fund)	$ 87.80		
		26,461.40	
			$53,881.61
II. Current uses			
1. For Student Loan Fund			
Class of 1914		$ 234.00	
2. Included in income of College of Liberal Arts			
a) Books			
George Walker for English books	$ 500.00		
Richard Olney for mathematic books	200.00		
		700.00	
b) Scholarships			
James Read for local students		200.00	
c) Prizes			
Charles Howe for best essay on "Civil Government"		100.00	
d) General expenses			
Northwest Synod	$12,430.00		
Mary Avery	1,200.00		
Alumni Association	2,500.00		
		16,130.00	
3. For student aid			
Noah Jones		500.00	
			17,864.00
Total			$71,745.61

SCHEDULE I

Investment of Endowment Funds

The endowment funds of the college on June 30, 1921, were invested as indicated by the following summary and lists of investments:

Summary

	Amount	Percentage of Total	Average Yield
I. Funds consolidated			
1. Real estate owned (see p. 145)	$ 126,000.00	7.5	5.84
2. Bonds (see p. 145)	475,212.60	28.2	4.98
3. Stocks (see p. 145)	41,643.83	2.5	6.9
4. Real estate mortgages (see p. 146)	1,040,545.00	61.8	5.95
Total	$1,683,401.43	100.0	5.69
II. Funds separately invested			
1. Bonds (see p. 147)	$ 12,840.00	19.5	4.4
2. Stocks (see p. 147)	53,002.00	80.5	7.1
Total	$ 65,842.00	100.0	6.6
Total carried to "Balance Sheet," p. 128	$1,749,243.43	....	....

SCHEDULE I—*Continued*

Investments of Endowment Funds in Detail

	Face Value	Cost
I. Funds consolidated		
1. Real estate owned		
a) Business building in Chicago	....	$ 75,509.10
b) Business building in Minneapolis	....	50,490.90
Total—real estate	....	$ 126,000.00
2. Bonds		
a) Railway		
A.T. & S.F. Ry. Co. 4's	$ 25,000.00	$ 18,962.50
C.C.C. & St.L. Ry. Co. Equipt. 6's	25,000.00	25,000.00
K.C. Terminal Ry. 4's	25,000.00	24,250.00
Other bonds to be listed in report	357,500.00	349,250.00
Total	$432,500.00	$ 417,462.50
b) Public utility		
Havana Electric Co. 5's	$ 35,000.00	$ 30,800.00
c) Industrial		
Western Electric Co. 5's	$ 2,500.00	$ 2,479.38
d) Government and municipal		
Chicago West Park Com. 4's	$ 10,000.00	$ 10,080.72
U.S. 1st Liberty Loan 3½%	4,400.00	4,390.00
U.S. 3d Liberty Loan 4¼%	7,000.00	7,000.00
U.S. 4th Liberty Loan 4¼%	3,000.00	3,000.00
Total	$ 24,400.00	$ 24,470.72
Total bonds	$494,400.00	$ 475,212.60
3. Stocks		
a) Railway		
200 shares C., St.P., M.&O. Ry. Co. Pref. 7%	20,000.00	$ 19,600.00
b) Industrial		
210 shares U.S. Steel Corp. Pref. 7%	21,000.00	22,043.83
Total	41,000.00	$ 41,643.83

SCHEDULE I—*Continued*

	Number of Loans	Amount
4. Real estate mortgages		
a) City mortgages		
Illinois–Chicago	1	$ 35,000.00
Wisconsin–Milwaukee	4	55,000.00
Minnesota–Minneapolis	1	14,270.00
Total city mortgages	6	$ 104,270.00
b) Farm mortgages		
Illinois	39	$ 141,225.00
Indiana	9	42,000.00
Iowa	37	233,800.00
Minnesota	30	123,700.00
South Dakota	19	68,000.00
Washington	15	63,100.00
Wisconsin	50	264,450.00
Total farm mortgages	199	$ 936,275.00
Total real estate mortgages	205	$1,040,545.00

Mortgage loans classified as to interest rate

16 at 5%	$ 128,445.00
25 at 5¾%	203,000.00
147 at 6%	582,200.00
17 at 7%	126,900.00
205	$1,040,545.00

Average rate 5.95%

SCHEDULE I—*Continued*

	Face Value	Cost
II. Funds separately invested		
The Joseph Hamm Fund		
A.T. S.F. Ry. Co. Pref. Stock 6%	$16,000.00	$16,160.00
Evansville & Terre Haute Ry. Co. 1st Mortgage 6% Bonds	1,000.00	1,000.00
Northern Pacific Ry. Co. Prior Lien 4% Bonds	6,000.00	5,940.00
Union Pacific R.R. and Land Grant 4% Bonds	5,000.00	4,900.00
	$28,000.00	$28,000.00
The William Bushnell Fund		
Inland Steel Co. 1st Mortgage 6% Bonds	$ 1,000.00	$ 1,000.00
The Fleugel Field Fund		
United Light & Ry. Co. Pref. Stock 6%	$12,500.00	$11,500.00
The J. T. Sherman Fund		
Consumers Co. Pref. Stock 7%	$10,000.00	$ 8,300.00
Consumers Co. Com. Stock 7%	8,600.00	7,912.00
Northern States Power Co. Pref. Stock 7%	11,000.00	9,130.00
	$29,600.00	$25,342.00
Total	$71,100.00	$65,842.00
III. Classification		
1. Bonds		
Railway	$12,000.00	$11,840.00
Industrial	1,000.00	1,000.00
	$13,000.00	$12,840.00
2. Stock		
Railway	$16,000.00	$16,160.00
Public Utility	23,500.00	20,630.00
Industrial	18,600.00	16,212.00
	$58,100.00	$53,002.00
Total	$71,100.00	$65,842.00

SCHEDULE II

Investment of Annuity Funds

Summary

	Cost
I. Funds consolidated (see below)	$ 68,300.00
II. Funds separately invested (see below)	90,000.00
Total carried to "Balance Sheet," p. 128	$158,300.00

Investments in Detail

	Face Value	Cost
I. Funds consolidated		
1. Bonds		
A.T. & S.F. Ry. Co. General 4's	$20,000.00	$18,400.00
So. Dak. Rural Credit 5's	25,000.00	25,000.00
U.S. 4th Liberty Loan 4¼%	10,000.00	8,870.00
	$55,000.00	$52,270.00
2. Mortgages		
Wisconsin Farm Mortgage 5½%	....	$16,030.00
Total funds consolidated	....	$68,300.00
II. Funds separately invested		
1. The George Bouton Annuity Fund		
Black Mill & Lumber Co. Com. Stock 7%	$15,000.00	$15,797.00
Pullman Co. Com. Stock 8%	5,600.00	9,128.00
Bogue Phalia Drain. Dist. Bonds 6%	15,000.00	15,075.00
	$35,600.00	$40,000.00
2. The Joel Polleus Annuity Fund		
Consumers Co. Pref. Stock 7%	$20,000.00	$16,600.00
Consumers Co. Com. Stock 7%	17,200.00	15,824.00
United Light & Ry. Co. Pref. Stock 6%	17,000.00	17,576.00
	$54,200.00	$50,000.00
Total funds separately invested	....	$90,000.00

SCHEDULE III

Buildings, Grounds, and Equipment

The total cost of the college campus, buildings, and equipment on June 30, 1921, amounted to $750,843.50, divided as follows:

	Inventory Value	Cost
1. Buildings	$563,600.00	$512,580.80
2. Grounds	89,000.00	89,000.00
3. Equipment	171,650.00	149,262.70
Total carried to "Balance Sheet," p. 128	$824,250.00	$750,843.50

	Type	Built	Cubical Contents Cu. Ft.	Additions during Year	Cost June 30, 1921
1. Buildings—					
a) Educational					
Art Hall	Frame	1883	50,300		$ 5,000.00
Chapel	Stone	1858	340,000		34,300.00
Gymnasium	Brick and steel	1892	520,000		42,560.00
Library	Stone	1882	250,500		50,000.00
Memorial Hall	Stone	1868	128,000		22,000.00
Middle Hall	Stone	1850	150,000		12,000.00
Music Hall	Stone	1880	420,400		30,000.00
North Hall	Stone	1855	110,000		11,000.00
Observatory	Brick	1878	60,200		8,000.00
Science Hall	Brick and concrete	1910	580,000		82,000.00
South Hall	Stone	1860	180,800		20,000.00
Total			2,790,200		$316,860.00
b) Dormitories					
Men					
Christie Hall	Brick	1870	250,000	(1) $15,000.00	$ 49,650.00
Stetson Lodge	Brick	1921	110,000	(1) 16,000.00	16,000.00
Women					
Carver Cottage	Frame	1900	68,000		10,000.00
Underwood Hall	Brick	1890	250,000	(1) 3,000.00	48,000.00
c) Residences					
Dean's	Frame	1890	80,000	(1) 3,000.00	17,000.00
Nelson Cottage	Frame	1900	20,000		3,000.00
President's	Brick	1860	90,000		15,300.00
Sulzer Cottage	Frame	1880	32,000		5,300.00
Superintendent's	Frame	1910	18,000		2,630.00
Total			918,000	(1) $37,000.00	$166,880.00

SCHEDULE III—*Continued*

	Type	Built	Cubical Contents Cu. Ft.	Additions during Year	Cost June 30, 1921
d) Central Heating Plant..........	Brick and concrete	1910	130,000	....	$ 27,080.00
e) S. C. A. and Recreation Building under construction...........	....	......	....	(1) $ 1,760.80	$ 1,760.80
Total buildings	....	......	....	(1) $38,760.80	$512,580.80

	Additions during Year	Cost June 30, 1921
2. Grounds		
Campus—160 acres..........................	....	$ 87,000.00
Fleugel Field (athletics)—4 acres...............	....	2,000.00
Total grounds..........................	....	$ 89,000.00
3. Equipment		
Books..	(2) $ 3,050.00	$ 76,080.40
Scientific equipment..........................	....	20,140.30
Furniture...................................	(1) 10,347.80	53,042.00
Total equipment..........................	$13,397.80	$149,262.70

Note.—Items under "Additions" marked (1) are provided from special funds, see Schedule VII, p. 157: the item marked (2) was provided by $700 from gifts, see p. 143, and $2,350 from current funds.

SCHEDULE IV

Temporary Investments of Building and Equipment Funds

On June 30, 1921, $143,750 of the funds available for building construction and the purchase of new equipment were temporarily invested as follows:

	Face Value	Cost
Certificate of Deposit First National Bank—4%	$35,000.00	$ 35,000.00
U.S. Treasury Certificates—5¾%	90,000.00	90,000.00
Michigan Central Ry. Equipt. Bonds—6%	19,000.00	18,750.00
Total carried to "Balance Sheet," p. 128		$143,750.00

SCHEDULE V

Endowment Funds

The endowment funds of the college amounted on June 30, 1921, to $1,767,424.47. The amount invested and cash uninvested on that date, and the objects for which the income was used, are shown below:

Name and Object	Amount on July 1, 1920	Additions 1920–21	Deductions 1920–21	Amount on June 30, 1921
I. Unrestricted	$ 968,673.15	$ 22,808.21	$ 281.57	$ 991,199.79
II. Restricted				
1. President	40,000.00			40,000.00
2. Professorships	367,263.71			367,263.71
3. Departmental	35,730.00	612.00		36,342.00
4. Lectureships	5,000.00			5,000.00
5. Books	32,415.00			32,415.00
6. Building maintenance	105,159.55			105,159.55
7. Grounds maintenance	11,500.00			11,500.00
8. Scholarships	100,653.55	3,000.00		103,653.55
9. Student aid	40,000.00		7,000.00	33,000.00
10. Prizes	4,500.00			4,500.00
11. Dormitory library	14,000.00			14,000.00
III. Loss, gain, and premium	20,560.82	3,579.48	749.13	23,391.17
Total	$1,745,455.78	$ 29,999.69	$ 8,030.70	
Total carried to "Balnace Sheet," p. 129				$1,767,424.77
Invested (Schedule I, p. 144)			$1,749,243.43	
Cash awaiting investment ("Balance Sheet," p. 128)			$ 18,181.34	
Funds consolidated, p. 154				$1,701,582.77
Invested			$1,683,401.43	
Cash awaiting investment			18,181.34	
Funds separately invested, p. 154				65,842.00
Invested			$ 65,842.00	
Total				$1,767,424.77

SCHEDULE V—*Continued*

Name and Object	Amount on July 1, 1920	Additions 1920–21	Deductions 1920–21	Amount on June 30, 1921
A. Funds consolidated—				
I. Unrestricted				
Alumni Fund	....	$21,148.78	....	$ 21,148.78
1901 Fund	$328,083.22	.. .	.... . .	328,083.22
1908 Fund	110,946.58	417 00	....	111,363.58
1913 Fund	386,765.37	2 43	Exp. $281.57	386,486.23
Class of 1900	425.00	....	....	425.00
Class of 1910	742.00	40.00	....	782.00
Patriotic Fund	26,066.00	50.00	....	26,116 00
Pearson Fund	100,000.00	....	....	100,000 00
Undesignated	15,644.98	1,150.00	....	16,794.98
Total	$968,673.15	$22,808.21	$281.57	$991,199.79
II. Restricted				
1. President	$ 40,000.00	....	....	$ 40,000.00
2. Professorships				
Alumni	$ 20,805.88	....	....	$ 20,805.88
Borden	5,000.00	....	....	5,000.00
Brewer	14,865.00	....	....	14,865.00
Others (list in detail)	326,592.83	....	....	326,592.83
Total	$367,263.71	....	....	$367,263.71
3. Departmental				
Biblical (Blake)	$ 1,000.00	....	....	$ 1,000.00
Art (Elsom)	10,000.00	....	....	10,000.00
Total	$ 11,000.00	....	....	$ 11,000.00
4. Lectureships				
Phillips Missionary	$ 3,000.00	....	....	$ 3,000.00
Schmelzer Memorial	2,000.00	....	....	2,000.00
Total	$ 5,000.00	....	....	$ 5,000.00
5. Books				
Academy	$ 500.00	....	....	$ 500.00
Burnside	500.00	....	....	500 00
Carey	5,000.00	....	....	5,000.00
Others (list in detail)	26,415.00	....	....	26,415.00
Total	$ 32,415.00	....	....	$ 32,415.00
6. Building maintenance				
Observatory	$ 7,000.00	....	....	$ 7,000.00
Science Hall	88,506.09	....	....	88,506.09
South Hall	9,653.46	....	....	9,653.46
Total	$105,159.55	....	....	$105,159.55

SCHEDULE V—*Continued*

Name and Object	Amount on July 1, 1920	Additions 1920–21	Deductions 1920–21	Amount on June 30, 1921
8. Scholarships				
Bunn	$ 3,500.00	....	....	$ 3,500.00
Clark	....	Tfr. $ 3,000.00	....	3,000.00
Cousins	1,000.00	....	....	1,000.00
Others (list in detail)	96,153.55	....	....	96,153.55
Total	$100,653.55	3,000.00	....	$103,653.55
9. Student aid				
Dowling Memorial	$ 1,000.00	....	....	$ 1,000.00
Education	4,000.00	....	....	4,000.00
Total	$ 5,000.00	....	....	$ 5,000.00
10. Prizes				
Art Essay	$ 500.00	....	....	$ 500 00
Harrison Memorial	1,000.00	....	....	1,000.00
Moehlman Memorial	1,000.00	....	....	1,000.00
Russell Memorial	1,000.00	....	....	1,000.00
Total	$ 3,500.00	....	....	$ 3,500.00
11. Dormitory Library Underwood Hall	$ 14,000.00	....	....	$ 14,000.00
III. Loss, gain, and premium	$ 20,560.82	$ 3,579.48	$ 749.13	$ 23,391.17
Total funds consolidated	$1,673,225.78	$29,387.69	$ 1,030.70	$1,701,582.77
B. Funds separately invested—Restricted				
3. Sherman Museum	$ 24,730.00	$ 612.00	....	$ 25,342 00
7. Grounds maintenance Fleugel Field	$ 11,500.00	....	....	$ 11,500.00
9. Student aid Hamm, Joseph	$ 35,000.00	....	$ 7,000.00	$ 28,000.00
10. Prizes Bushnell, William	$ 1,000.00	....	....	$ 1,000.00
Total funds separately invested	$ 72,230.00	$ 612.00	$ 7,000.00	$ 65,842.00

SCHEDULE VI

Annuities

Endowment funds of the college subject to annuities amounted on June 30, 1921, to $159,500. The amounts invested and the cash uninvested, the objects for which established, the name of the annuitants, and the disposition of the surplus are indicated below:

Name and Object	Amount on July 1, 1920	Additions	Deductions	Amount on June 30, 1921	Rate of Annuity (Percentage)
Summary					
I. Annuities consolidated	$ 68,500.00	$4,000.00	$ 3,000.00	$ 69,500.00	
II. Annuities separately invested	90,000.00	....	....	90,000.00	
Total	$158,500.00	$4,000.00	$ 3,000.00	....	
Total carried to "Balance Sheet," p. 129				$159,500.00	
Total investments (see Schedule II, p. 148)			$158,300.00		
Cash carried to "Balance Sheet," p. 128			1,200.00		
Annuities in detail					
I. Annuities consolidated					
1. General endowment					
Benj. L. Smith	$ 10,000.00	....	....	$ 10,000.00	5
2. Instruction					
James S. Ginn	25,000.00	....	....	25,000.00	4
Thos. P. Moore	25,000.00	....	....	25,000.00	4½
3. Scholarships					
Nath'l Clark	3,000.00	....	Tfr. $ 3,000.00	....	....
John S. Hunt	3,000.00	....	....	3,000.00	4
Mary W. Ladd	....	$4,000.00	....	4,000.00	5
Ann Minot	2,500.00	....	....	2,500.00	4
Total	$ 68,500.00	$4,000.00	$ 3,000.00	$ 69,500.00	....
II. Annuities separately invested					
1. General endowment					
George Bouton	$ 40,000.00	....	....	$*40,000.00	....
4. Library maintenance					
Joel Polleus	50,000.00	....	....	*50,000.00	....
Total	$ 90,000.00	....	....	$ 90,000.00	....

* Original gift; net income paid to annuitants.

SCHEDULE VI—*Continued*

	Income Received 1920–21	Annuities Paid 1920–21	Balance in Excess of Annuities Paid
I. Annuities consolidated	$3,364.97	$3,075.00	$289.97
II. Annuities separately invested	6,022.00	6,022.00	......
	$9,386.97	$9,097.00	......
Carried to "Surplus Account," Table II, p. 130	......	......	$289.97

SCHEDULE VII

Building and Equipment Funds

On June 30, 1921, funds available for additional plant amounted to $146,860.45, for the following:

	Amount on July 1, 1920	Additions in 1920–21	Deductions in 1920–21	Amount on June 30, 1921	Expended
1. Buildings					
Art	$ 50,000.00	(1) $ 2,250.00	....	$52,250.00	....
Students' Christian Association and Recreation Building	41,482.36	(1) 1,878.09 (2) 20,009.00	....	63,360.45	(3) $ 1,760.80
Dormitories and residences	35,626.40	(2) 1,373.60	....	(4) 37,000.00	(4) 37,000.00
	$127,108.76	$23,501.69	....	$152,610.45	$38,760.80
2. Equipment					
Art	$ 25,000.00	(1) $ 1,250.00 (2) 5,000.00	....	$31,250.00	....
Dormitories and residences	10,260.00	(2) 87.80	....	(5) 10,347.80	(5) $10,347.80
	$ 35,260.00	$ 6,337.80	....	$41,597.80	$10,347.80
Totals	$162,368.76	$31,839.49	....	$194,208.25	$49,108.60

Items marked (4) and (5) are complete; therefore funds are closed into Plant Capital and the expenditures are closed into *a*) Buildings	$37,000.00		
b) Equipment	10,347.80	$47,347.80	....
Balance in fund June 30, 1921, carried to "Balance Sheet," p. 129		$146,860.45	....
of which is invested (see Schedule IV)	$143,750.00		
Cash on hand (see "Balance Sheet," p. 128)	1,349.65		
Expended for plans, etc. (3)	1,760.80		

Note.—Additions marked (1) amounting to $5,378.09 are from income on investments; (2) amounting to $26,461.40 are from gifts; (3) are disbursements for plans and preliminary expenses.

SCHEDULE VIII

Special Funds for Designated Purposes

Funds administered by the college for certain specific purposes not a regular part of the college expenses are given here in detail. The cash balance belonging to these funds is kept in the special cash account.

	Balance July 1, 1920	Additions	Expenditures	Balance June 30, 1921	Disposition of Fund	
					Notes Receivable	Cash
1. Student loans						
Class of 1914	$2,379.44	(1) $ 64.32	$ 182.50 (Chgd. off)	$2,261.26	$1,881.59	$ 379.67
H. and J. Jones	934.88	(1) 17.40 (2) 234.00	40.00	1,146.28	971.17	175.11
	$3,314.32	$315.72	$ 222.50	$3,407.54	$2,852.76	$ 554.78
2. Lectures						
Labor Movement	$5,000.00	....	$1,500.00	$3,500.00	....	$3,500.00
Totals	$8,314.32	$315.72	$1,722.50			
Total carried to "Balance Sheet," p. 129				$6,907.54		
Total carried to "Balance Sheet," p. 128					$2,852.76	
Total carried to "Balance Sheet," p. 128						$4,054.78

Note.—(1) income from loans $81.72; (2) gifts $234.00.

SCHEDULE IX

General Funds for Designated Purposes

Gifts, receipts, and income on restricted funds for designated purposes available during the year, the amounts expended and the credit balances carried forward to next year's account are as follows:

	Balance July 1, 1920		Additions in 1920–21	Total	Included in College Expenses Table III	Balance June 30, 1921
1. President's chair	....	(1)	$ 2,240.00	$ 2,240.00	$ 2,240.00	....
2. Professorships (In actual report give specific departments)	....	(1)	$20,566.77	$20,566.77	$20,566.77	....
3. Departmental						
Art Department	....	(1)	$ 560.00	$ 560.00	$ 560.00	....
Biblical Department	....	(1)	56.00	56.00	56.00	....
Sherman Museum	$3,271.40	(1)	2,059.75	5,331.15	1,336.66	$3,994.49
	$3,271.40		$ 2,675.75	$ 5,947.15	$ 1,952.66	$3,994.49
5. Books						
English	$ 150.00	(2)	$ 500.00	$ 650.00	$ 600.00	$ 50.00
General	....	(1)	1,815.24	1,815.24	1,815.24	....
Mathematics	....	(2)	200.00	200.00	200.00	....
	$ 150.00		$ 2,515.24	$ 2,665.24	$ 2,615.24	$ 50.00
6. Building maintenance						
Observatory	....	(1)	$ 392.00	$ 392.00	$ 392.00	....
Science Hall	....	(1)	4,956.34	4,956.34	4,956.34	....
	....	(1)	540.59	540.59	540.59	....
	....		$ 5,888.93	$ 5,888.93	$ 5,888.93	....
Carried forward	$3,421.40	(4)	$33,886.69	$37,308.09	$33,263.60	$4,044.49

SCHEDULE IX—*Continued*

	Balance July 1, 1920		Additions 1920–21	Total	Included in College Expenses Table III	Balance June 30, 1921
Brought forward	$3,421.40		$33,886.69	$37,308.09	$33,263.60	$4,044.49
4. Lectureships						
Phillips Missionary	....	(1)	$ 168.00	$ 168.00	$ 168.00	....
Schmelzer Memorial	....	(1)	112.00	112.00	112.00	....
	....		$ 280.00	$ 280.00	$ 280.00	....
7. Grounds maintenance						
Fleugel Field	$ 77.97	(1)	$ 750.00	$ 827.97	$ 265.86	$ 562.11
8. Scholarships						
General	$1,255.86	(1)	$ 5,720.59	$ 6,976.45	$ 6,700.78	$ 275.67
Local students	....	(2)	200.00	200.00	200.00	....
	$1,255.86		$ 5,920.59	$ 7,176.45	$ 6,900.78	$ 275.67
9. Student aid						
Hannon Fund	$ 156.31	(1)	$ 1,500.00	$ 1,656.31	$ 1,650.00	$ 6.31
Dowling Memorial	131.50	(1)	56.00	187.50	....	187.50
Education	180.28	(1)	224.00	404.28	225.00	179.28
Noah Jones	100.00	(2)	500.00	600.00	600.00	....
	$ 568.09		$ 2,280.00	$ 2,848.09	$ 2,475.00	$ 373.09
Carried forward	$5,323.32		$43,117.28	$48,440.60	$43,185.24	$5,255.36

SCHEDULE IX—*Continued*

	Balance July 1, 1920		Additions 1920–21	Total	Included in College Expenses Table III	Balance June 30, 1921
Brought forward	$5,323.32		$43,117.28	$48,440.60	$43,185.24	$5,255.36
10. Prizes						
Art Essay	....	(1)	$ 28.00	$ 28.00	....	$ 28.00
Bushnell	$ 90.00	(1)	60.00	150.00	$ 50.00	100.00
Harrison Memorial	....	(1)	56.00	56.00	40.00	16.00
Howe	....	(2)	100.00	100.00	100.00	....
Moehlman Memorial	80.00	(1)	56.00	136.00	40.00	96.00
Russell	70.00	(1)	56.00	126.00	80.00	46.00
	$ 240.00		$ 356.00	$ 596.00	$ 310.00	$ 286.00
11. Dormitory (Underwood) Library	....	(1)	$ 784.00	$ 784.00	$ 784.00	....
12. Athletics	$ 60.00	(3)	$ 2,970.50	$ 3,030.50	$ 3,001.40	$ 29.10
Totals	$5,623.32		$47,227.78	$52,851.10	$47,280.64	
Total carried to "Balance Sheet," p. 129						$5,570.46

NOTE.—(1) income on invested funds $42,757.28; (2) gifts $1,500.00; (3) from athletic games—receipts $2,970.50; (4) $33,263.60 of the item of $33,886.60 included in college income, see p. 131.

SCHEDULE X

Reserves

During the year Reserves were increased by $4,149.40 as shown below:

	Balance July 1, 1920	Added during 1920–21	Balance June 30, 1921
Equipment and expense			
Dormitories	$ 4,418.72	$ 41.43	$ 4,460.15
Dining-halls	2,582.10	1,018.00	3,600.10
Power plant	2,100.00	2,000.00	4,100.00
School of Music	660.00	800.00	1,460.00
Annuity income reserve	970.46	289.97	1,260.43
Total	$10,731.28	$ 4,149.40	
Total reserves carried to Balance Sheet, p. 129			$14,880.68

SCHEDULE XI

Operation and Maintenance of Physical Plant, College of Liberal Arts

$32,068.60 was spent during the fiscal year for supplying heat, light, water, and power to the various college buildings, and for insurance, repairs, supplies, and labor in caring for the buildings and grounds. The distribution of these items among the buildings is shown below:

Buildings	Service	Heat	Light and Power	Water	Insurance	Supplies	Miscel-laneous	Repairs	Total
Educational—									
Art Hall	$ 155.00	$ 202.36	$ 10.50	$ 7.16	$100.05	$ 14.27	$ 2.50	$ 10.50	$ 502.34
Chapel	136.37	688.53	147.12	12.30	147.10	16.73	.84	43.80	1,192.79
Gymnasium	600.66	1,881.48	252.20	128.55	78.80	156.10	13.03	2,841.79	5,952.61
Library	776.85	2,027.32	420.40	42.60	187.55	154.48	12.55	300.63	3,922.38
Memorial Hall	217.00	608.85	169.33	10.20	144.85	25.10	2.50	22.95	1,200.78
Middle Hall	1,141.40	1,621.35	147.12	20.60	41.70	47.34	11.36	1,452.41	4,483.28
North Hall	203.60	936.37	63.06	11.88	12.50	24.12	12.50	68.86	1,332.89
Observatory	36.30	165.65	10.51	10.44	15.00	15.45	6.23	340.29	599.87
Science Hall	870.98	3,587.38	273.26	115.50	226.15	150.54	9.13	260.52	5,493.46
South Hall	146.75	1,335.71	94.50	12.77	37.50	29.88	8.03	782.75	2,447.89
Grounds	2,298.17					59.53		2,582.61	4,940.31
	$ 6,583.08	$13,055.00	$ 1,588.00	$372.00	$991.20	$693.54	$ 78.67	$ 8,707.11	
Carried to College of Liberal Arts Expense, Table III, p. 133									$32,068.60

Similar expenditures for the Dormitories, Dining-halls, and School of Music are shown in Tables V, VI, and VIII.

NOTES ON TABLES AND SCHEDULES IN ANNUAL REPORT

The following notes do not form a part of the annual report and should not be included in the treasurer's report. They are inserted here only for the purpose of assisting the financial officers.

Table I.—This table gives the total assets of the college, $2,862,704.87, and shows of what they are composed, namely: $1,926,924.77 permanent fund assets, 67.3 per cent of the total; $895,943.15 buildings, grounds and equipment, and building funds temporarily held, 31.3 per cent of the total, and the remainder, $39,836.95 current assets, 1.4 per cent of the total. The permanent funds are accounted for exactly by investments and cash awaiting investment. The manner in which the plant funds have been used is shown, and the amount and disposition of building and equipment funds being held for new construction are indicated. The constituent parts of current assets and current funds and liabilities are enumerated, and the financial condition of the college in this respect shown to be good. Thus, to meet the accounts payable of $7,462.13 there is cash of $9,549.79. The sum to the credit of special funds for designated purposes, $6,907.54, is offset by assets of cash, $4,054.78, and notes receivable, $2,852.76, while reserves, $14,880.68, are shown to be invested in a certificate of deposit of $14,000 and the remainder in cash. The remainder of the current funds, $10,586.60, consisting of credits to accounts, which the college as a going concern will have always, is accounted for by sundry good current assets of a sort which likewise will usually be found in a college in operation.

The accounts given in this table in totals only are fully explained in Schedules I to X, to which reference is made by number and page so that anyone desiring to learn the particulars may be able to do so.

From Table I the reader should be able to obtain a clear idea of the college's financial condition on June 30, 1921.

Table II.—From this table the surplus resulting from current operations, its sources and disposition may be ascertained. The details of operation of each unit contributing to the surplus may be learned by turning to the tables to which reference is here made.

Table III.—The receipts and expenses of the College of Liberal Arts are given in detail under appropriate headings in this table. The table follows the budget classification, but combines in a few totals items which are kept in detail in the ledgers. It is exceedingly important that the cost of the strictly educational work of the college and the income to meet it may be disclosed. Consequently, this table gives the educational income and expenses separately, and follows them with similar information regarding certain special items, which, though they pertain to the college, yet do not form a necessary part of its work. By means of this division the direct cost per capita of educating students may be ascertained, if in addition to the information given therein the number of students in attendance is learned.

Table IV.—Analysis of the educational receipts and expenses of the College of Liberal Arts for the last two years as to sources, applications, and percentages is given in this table. It is very interesting and informing to learn what part of the cost is met from each kind of income, and what relation the principal items of expense bear to each other. Any favorable tendency may thereby be encouraged, and any unfavorable one corrected if possible.

Table V.—This table discloses the result of operation of the dormitories on a strictly business basis. Rent which includes an amount for depreciation has been charged, as well as all other expenses. The item of repairs includes renewals, as well as repairs, of furniture and equipment. The cost of building repairs is included in the rent. The college income is credited with the amount charged for rent and depreciation, and the surplus for the year finally carried to a reserve for the benefit of the dormitories.

Tables VI and VII.—These tables show the outcome of the operations of the dining-halls and bookstores, and since they are made on the same plan as Table V do not require comment.

Table VIII.—This table gives the receipts and disbursements of the School of Music. The classification followed accords with that used for the College of Liberal Arts. Since this school is expected to be self-supporting, all legitimate costs have been included, as was the case in the other departments conducted on a similar basis. In addition to similar charges found in those departments, a charge of $800 is made to this school to provide an equipment reserve to replace pianos, organs, and other musical equipment when needed.

Table IX.—The cost of operating the central power plant on a strictly business basis is shown in this table. An annual charge of $2,000 has been made and carried to equipment reserve to build up a fund for the replacement of boilers and machinery when needed. The cost of the plant operation has been allocated to the departments using its services. To the proportion of cost chargeable to the School of Music, dormitories, and dining-halls has been added their proportion of interest on the original cost of the plant and its equipment, and a similar sum credited to the charge to the College of Liberal Arts. This method obviates charging interest on the whole plant and crediting it to college income, and increasing the charge for the heat, light, water, and power furnished to the College of Liberal Arts by its proportion of the interest so charged. The result is the same in both cases because under either plan the net credit to the college is the proportion of interest charged to the other departments.

TABLE X.—This table reports in detail the gifts actually paid to the college during the year. They are classified as to capital and current, and so arranged that it is not necessary to list them again separately in other portions of the report. If the list of gifts received each year is printed annually it is possible to obtain with ease the total of gifts up to date. It is a good plan to keep a card ledger account with each donor and post to it any gifts which he may make.

SCHEDULE I.—The investments of endowment funds are given in this schedule. The kinds owned, their average yield as of June 30, the percentage of the total which each kind of investment is, the investments belonging to the funds which have been consolidated for purposes of investment, those belonging to funds separately invested, and details of the investments, with the exception of real estate mortgages, may all be found herein. Real estate mortgages are classified as to location of property securing them, and grouped as to cities and states. The number and amount in each location are shown and finally a classification as to the various rates of interest received is given. This manner of reporting real estate mortgages gives more information than a list of the names of persons from whom the mortgages were taken, and occupies much less space.

SCHEDULE II.—This schedule shows the investments belonging to annuity funds and is made after the plan followed in Schedule I.

Schedule III.—The plant of the college is described in detail in this schedule. From it one may learn the names of the buildings and the purposes for which they are used. The type, date of construction, cubical content, and cost to date are indicated. From these data one may get a good idea of the plant, and find the cost per cubic foot of each building. For the sake of comparison with cost the inventory value of the buildings, land, and equipment is shown in totals.

Schedule IV.—This schedule is self-explanatory.

Schedule V.—In this schedule the endowment funds are shown first in totals, later in detail, and classified as to objects for which the income is to be used. The amount at the beginning of the year, the changes occurring during the year, and the amount of the funds at the close of the year are all indicated. The funds which are consolidated and invested together, and those which are invested separately are also shown. From this schedule full information may be obtained as to the endowment and the particulars of any changes made during the year.

Schedule VI.—This schedule gives full particulars regarding the annuity funds held by the college, and the purposes to which they are to be devoted ultimately. The rates of annuities paid, the amount of income received, the amount invested, the cash uninvested, and the changes occurring during the year are likewise given.

Schedule VII.—The building and equipment funds which are being held and augmented by interest for future use are described in this schedule. The method of presentation is similar to that used in previous schedules and needs no further elaboration. When the object for which any fund was given is accomplished the accounts are closed into the permanent accounts of property and plant funds and removed from this classification.

SCHEDULE VIII.—Funds for objects of a general nature are often given to the college, which, if used during the year in which they were given, would be classified under "General Funds for Designated Purposes" and the cash deposited in the general account cash. But if it takes several years to carry out the purposes of the gifts it is better to include them among "Special Funds for Designated Purposes" and carry the cash in the special bank account.

This plan insures the availability of the cash when needed. Thus, in this schedule funds for making loans to students, and a gift for lectures on the labor movement, to be spread over a period of years, are included. The amount spent for the lectures is also included among the income and expenses of the College of Liberal Arts as part of its extra-curriculum activities. The charges during the year for loans made to students and the income received, together with additions to the fund, are shown, and the balances remaining at the close of the year are indicated.

SCHEDULE IX.—In this schedule is given a list of the funds to be used for restricted purposes of a general nature. The balance at the beginning of the year, the changes occurring during the year, and any balance unexpended at the close of the year, are all listed in detail. The sources of receipts and the amount received from each source are given, and the amount expended indicated. The expenditures are also included among the expenses of the College of Liberal Arts, and the sum equal to them taken from the income of these funds and included in the College of Liberal Arts income. Any balance unexpended is carried forward under the classification of this schedule to next year's account. By means of this schedule one can see whether the terms of restricted gifts are observed, an advantage which might not be possible if the sums were included only in the accounts of the College of Liberal Arts of a similar nature.

Schedule X.—The additions made to Reserves during the year are listed in this schedule, and the total sums on hand on June 30, 1921.

Schedule XI.—This schedule allocates to each building used for educational purposes the cost of maintenance and upkeep, classified under headings descriptive of the elements of cost, and needs no special explanation.

CHAPTER X

COLLEGE ORGANIZATION

THE CHARTER

The charter or act of incorporation of an endowed college has usually been granted by special act of the legislature, or has been framed in accordance with the statutes of the state. Its original form—if a special charter—is seldom altered because certain exemptions and rights which were granted in the early days might be withdrawn if it were reconsidered by present-day legislators.

The charter normally recites the legal name of the body corporate (a title which must always be used in signing contracts or other legal papers); the general and particular object of the corporation; the location; the method of management; the qualifications and number of trustees, their term of office, their powers and duties, and the method for election of their successors. It ordinarily states that the corporation does not have capital stock and was not organized for profit; that it may sue and be sued; that it may acquire, hold, invest, sell, and convey both real and personal property, whether obtained by gift, grant, bequest, or otherwise; that it may serve as trustee in handling gifts and bequests; that it may have, use, and alter a seal; that the governing body has power to prescribe requirements for admission, graduation, and the courses of study; that it may confer degrees, diplomas, and honors; that it may employ teachers and others under such conditions as it may determine; that it may make by-laws to give effect to the provisions of the charter, and may amend, alter, or replace them when necessary, subject, however, to the constitution and laws of the United States and of the state. In brief, the governing body is usually vested "with all the powers necessary or convenient to accomplish the object and perform the duties prescribed."

THE BOARD OF TRUSTEES

From the recital of the powers contained in the charter it is evident that supreme authority is vested in the board of trustees, but it will be observed later that many of its duties are delegated to the executive officers and committees. The trustees of an endowed college usually elect their own successors, but in the case of some denominational institutions their choice may be restricted to persons nominated by the denominational conference or convention. Occasionally the denominational conference or convention elects the trustees. In order to secure continuity of policy it is customary so to arrange the term of office and the date of expiration that the maximum change in membership taking place in any year is clearly a small minority of the board. Effective service by a trustee is dependent upon long acquaintance with the institution and its needs, so that changes in the board should not be made too often. The number of trustees varies—commonly from fifteen to twenty-one in colleges independent of control by religious bodies; to thirty-six or more in colleges having connection with denominational organizations. (The supposititious college hereinafter described as "Endowed College" has twenty-one trustees.)

It is worthy of commendation that busy men, burdened with responsibilities, willingly devote much time and energy to further the cause of higher education, and give material assistance for its maintenance and development. Because they are busy men, occupied with their own affairs, the trustees should give consideration primarily to questions of policy, and should entrust the execution of policies determined to committees of the board and to administrative officers of the college. In deciding the best policy for the conduct of the college they will naturally be guided by the advice and experience of the administrative officers. Searching and careful study should be made by the board of the reasons given by the officers in support of their recommendations, because a critical (but sympathetic) attitude on their part toward the recommendations of the college officials will be of benefit to the college and will develop a more careful and mature judgment on the part of the officers themselves.

THE BY-LAWS

By-laws are designed to give effect to the provisions of the charter or the articles of incorporation, to provide for committees and officers, and to specify their duties and the manner in which they shall be performed.

In response to numerous requests for a typical set of by-laws the following have been prepared, describing suitable methods of procedure and an appropriate division of authority and responsibility.

"Endowed College" is supposed to have about five hundred students, approximately Two Million Dollars of endowment, and a plant costing about Nine Hundred Thousand Dollars. In a college of this size it is neither desirable nor feasible to have as many administrative officers as in a larger college or university. For this reason the checks and balances required for correct business management cannot be so readily provided. It has seemed best to assume that the treasurer of "Endowed College" is a prominent citizen of the community, probably a banker, with wide experience and intimate acquaintance with financial affairs, but unable to devote his whole time to the college, and that he has the general oversight and custody of the securities and property of the college, while the secretary and business manager is the chief business officer, devoting full time to the work and filling the two offices. In performing the duties of secretary he will attend all meetings of the board and its committees, will keep their minutes and become fully conversant with their policies and actions, and as business officer will have charge of the business and accounting of the institution, directing the details of its business affairs. Under the arrangement which is here proposed the college obtains as treasurer a man held in high esteem, and as secretary and business manager a competent man, occupying a position of dignity and responsibility and remunerated with a suitable salary.

In drawing checks upon the funds of the college good business practice requires the signature of two persons, one as maker, the other as countersigner. Where there is only one business officer devoting full time to the affairs of the college, it is difficult to arrange conveniently to give effect to this principle. In the case of "Endowed College" it is suggested that the business manager, as chief business officer, prepare and sign checks on all the funds of the college, that the treasurer countersign those drawn on endowment funds, on funds for special purposes, and on building funds, and that the president, or some person authorized by the board to sign in his place, countersign checks on the general funds.

STAFF REQUIRED FOR BUSINESS DEPARTMENT OF AN ENDOWED COLLEGE OF MODERATE SIZE

The question may be asked: Is the plan of administration here outlined an expensive one to maintain, and out of the reach of a college of moderate size? The plan will be found no more expensive than that which many colleges now have, and its result cannot but be much more satisfactory. It calls for one paid officer in charge of all the business affairs of the college. His position is of sufficient importance to warrant a respectable salary and to attract a man of ability. He will need a stenographer and a bookkeeper for his office, both of whom may well be women. At the opening of the year, and at rush periods, the help of a few student assistants may be required. The engineer in charge of the power plant may act as his assistant in caring for the physical plant. The increase in income resulting from prompt collection of fees, a slight increase in return from endowments due to careful investment, and the savings in expense resulting from wise purchasing and economical use of equipment, supplies, and fuel, may more than equal the annual cost of the department. Aside from these considerations the impression made upon friends and patrons of the college by good business management pays for itself many times over.

THE BY-LAWS OF ENDOWED COLLEGE
COLLEGE CITY, ILLINOIS

(Revised and Adopted June 22, 1921)

ARTICLE I. MEETINGS

Section 1. Annual Meeting

The annual meeting of the Board of Trustees of Endowed College shall be held at College City, Illinois, on the day next preceding the annual commencement, at the hour of 10 A.M.

Section 2. Regular Meetings

Regular meetings shall be held on the third Tuesday of October, of January, and of April, at the hour of 10 A.M.

Section 3. Notice of Meetings

Notice of all regular meetings shall be mailed to each member of the board by the secretary at least ten days prior to the date of such meetings.

Section 4. Special Meetings

Special meetings shall be called at any time by the secretary, upon request of the president of the board, or of three members of the board, or of the president of the college.

Section 5. Call for Special Meetings

The call for a special meeting shall state the nature of the business to be considered, and shall be mailed at least five days before the day on which the meeting is to be held.

Section 6. Place of Meeting

All meetings shall be held at the office of the board unless otherwise directed by the president of the board, or by the Board of Trustees. The place of meeting shall be indicated in the notice or call for the meeting.

Seven members of the board shall constitute a quorum for the transaction of any business except the election of officers and the amendment of by-laws, when a quorum shall consist of a majority of the board. Section 7. Quorum

General parliamentary rules, as modified by rules and regulations of the board, shall be observed in conducting the business of the board. Section 8. Rules of Order

The following shall be the order of business at each meeting of the board, but the rules of order may be suspended and any matter considered or postponed by action of the board: Section 9. Order of Business

Call to Order

I. Roll call
II. Consideration of minutes of last regular meeting and any special meetings held subsequently, and their approval or amendment
III. Election of trustees and officers
IV. Reports of standing committees
V. Reports of special committees
VI. Reports of officers and agents
VII. Unfinished business
VIII. New business
IX. Petitions and communications

ARTICLE II. OFFICERS

At the annual meeting, after the election of trustees, the board shall proceed to organize by electing by ballot the following officers to serve for one year, or until their successors shall have Section 1. Election of Officers been elected and shall have qualified: a president, a vice-president, a treasurer, a secretary, and a business manager. The president, vice-president, and treasurer shall be chosen from among the members of the board. The offices of secretary and business manager may be held by one person.

Section 2. Special Elections

In the event of a failure for any reason so to elect any or all of said officers, or in case any vacancy occurs in said offices from any cause, then an election may be held at any regular or special meeting, a majority of all the trustees being present and notice of such election having been given in the notice of the call for the meeting.

Section 3. Duties of President

The president of the board shall preside at the meetings of the board and shall discharge the duties which ordinarily pertain to that office. He shall sign all diplomas and shall execute, with the secretary attesting, contracts and instruments authorized or issued by authority of the board requiring his signature.

Section 4. Duties of Vice-President

The vice-president of the board in the absence or disability of the president shall perform all the duties of the president of the board. In the absence or disability of the president and the vice-president of the board, the chairman, or the acting chairman, of the Committee on Finance and Investment shall act as president of the board.

Section 5. Duties of Treasurer

The treasurer of the college shall be the custodian of the funds and securities belonging to the college, and shall keep the securities in a safety deposit vault to be designated by the board. He may, by written appointment to be filed with the secretary, designate some person who shall represent him in obtaining access to the securities of the college as herein next provided. The treasurer shall be responsible for all acts of his representative.

The treasurer shall countersign voucher checks on endowment funds, on funds for special purposes, and on building funds as prepared and signed by the business manager. (See Art. II, Sec. 7.)

Surety Bond of Treasurer

He shall file with the secretary a bond for the faithful performance of his duties in such sum as may be fixed by the board, and if not so fixed, then in the sum of Seventy-five Thousand Dollars ($75,000), with some responsible surety company approved by the board; the premium on said bond to be paid by the college.

In case of the absence of the treasurer, or of his inability to act, or in case the office becomes vacant, his duties shall be performed by the chairman or acting chairman of the Committee on Finance and Investment.

Access to Securities

Access to the securities of the college shall be had by not fewer than two persons jointly in the following manner, and never otherwise:

a) By the treasurer (or his representative) jointly with the business manager;

b) By the treasurer (or his representative) jointly with the chairman or acting chairman of the Committee on Finance and Investment;

c) By the treasurer (or his representative) jointly with the president or acting president of the board.

This provision, however, shall not be held to exclude the presence of other persons at the same time, providing access has been obtained as aforesaid, nor shall the provisions of this article be held to prevent the Board of Trustees from contracting with a responsible trust company to act as custodian in holding and keeping safely said securities, and to make deliveries on the order of any two persons entitled to access to said securities under this section.

Section 6. Duties of Secretary

The secretary shall perform the usual duties pertaining to this office. He shall keep full and true minutes of all meetings of the board and the meetings of all standing committees of the board, and of such special meetings as shall be requested of him. He shall be the custodian of all documents committed to his care.

He shall transmit promptly to each trustee a copy of the minutes of the meetings of the board and of its committees, and he shall notify all persons concerned of the actions taken by the board with respect to appointments, promotions, terms of service, and appropriations for their work and departments, and of any other matter.

He shall see that all bonds required by officers and employees of the college for the faithful performance of their duties are filed in his office. The business manager shall furnish the secretary a list of all officers and employees who should be bonded. He shall have the custody of the corporate seal and shall with it attest all documents requiring a seal.

Section 7. Duties of Business Manager

The business manager shall be the chief business officer of the Board of Trustees, and shall be the chief executive head of those departments, officers, and employees of the college not attached to the instructional staff. He shall see that the rules and regulations prescribed by the Board of Trustees for the government of the business affairs of the college are faithfully observed. He shall have the management of the entire college plant, and of all property of the college, whether real, personal, or mixed. He shall take the initiative in seeking investments for the funds of the college, and shall report promptly thereon to the Committee on Finance and Investment. He shall be responsible for the economical purchase of all supplies and materials bought by the college, and shall see that all building and other contracts made by the board are faithfully executed.

Management of Property

Receipt of Funds

The business manager shall collect and receive all moneys arising from gifts, bequests, or otherwise, for the benefit of the college, and all fees and money from any source due to the college or to any of its departments. He shall deposit promptly all such moneys received to the credit of the college in the appropriate bank accounts in such state or national banks as may be determined by the Board of Trustees.

Supervision and Keeping of Accounts

He shall keep proper books of account, fully setting forth the financial conditions and transactions of the college, and shall exercise a general supervision over all accounts of officers and employees of the college which have to do with the receipt or disbursement of funds and securities, and he shall obtain true and full reports of all such receipts and disbursements from the officers and employees aforesaid, who shall keep their accounts in such manner and render to him such statements as may be from time to time required by him, or as may be needed to show correctly the financial condition of the college, or any of its departments. He shall supply the board and the committees and the president of the college with such statements as may be required of him, or as may be needed to show correctly the financial condition of the college or any of its departments.

Examination of Accounts

He shall examine all accounts, claims, and demands against the college, and no money shall be drawn from its treasury unless the amount thereof be adjusted and settled by him and found to be within the budget appropriation, or provision, therefor. If he shall, upon the examination of any account, doubt its correctness or find the appropriation or provision insufficient, he shall submit the account to the Committee on Finance and Investment for its decision. No money shall be drawn from the treasury except by checks prepared and signed by him as follows:

Methods of Payment

a) Voucher checks on the endowment funds and on funds for special purposes, and on building funds, for purchases and payments authorized by the Committee on Finance and Investment or by special action of the board; said voucher checks to be countersigned by the treasurer.

b) Voucher checks on current funds in payment of bills for materials and supplies, provision for which has been made by the board or the Executive Committee, approved by the deans or heads of departments; said voucher checks to be countersigned by the president of the college or some person authorized by the Board of Trustees to sign in his place.

c) Checks on current funds for salaries and wages as fixed by the board or the Executive Committee, or certified by the directors of departments in accordance with budget provision or other appropriations; said checks to be countersigned by the president of the college or some person authorized by the Board of Trustees to sign in his place.

All voucher checks shall indicate the particular account to which the payments are chargeable and the person to whom payable.

Surety Bond of Business Manager

The business manager shall give a bond in favor of the college for the faithful performance of his duties in such sum as may be fixed by the board, and if not so fixed, then in the sum of Twenty-Five Thousand Dollars ($25,000), with some responsible surety company approved by the board, the compensation of such surety company to be paid by the college.

Surety Bonds of Officers and Employees

He shall see that all officers and employees in all departments of the college having custody of or responsible for funds and securities shall furnish bonds in such amounts as shall be determined and fixed by the Committee on Finance and Investment; and it is also hereby provided that all premiums thereon shall be paid by the college.

The business manager shall also perform such other duties as the president of the college or the Board of Trustees may from time to time designate.

In case of vacancy in the office of business manager, or of his absence or inability to act, his duties shall be performed by the chairman or vice-chairman of the Executive Committee.

ARTICLE III. COMMITTEES OF THE BOARD

Section 1.

There shall be six standing committees of the Board of Trustees, namely:

Standing Committees

a) Executive Committee
b) Committee on Finance and Investment
c) Committee on Instruction
d) Committee on Buildings and Grounds
e) Committee on Audit
f) Committee on Budget

Section 2. Appointment of Committees

The standing committees, other than the Committee on Budget, shall be appointed by the president of the board, with the concurrence of the board, at the annual meeting, or as soon thereafter as possible, to serve until their successors are appointed. In making the appointments the president shall designate the chairman and vice-chairman of each committee, except for the Executive Committee and the Committee on Budget.

Section 3. Personnel of Committees

Each committee appointed as aforesaid shall consist of five members of the board, and, in addition, the president of the board and the president of the college as members ex officio.

Section 4. Minutes of Committees

Record of the actions of each committee shall be kept by the secretary of the board, and shall be reported in writing to the board at its next meeting for approval. A copy of the minutes of each committee meeting shall be sent promptly to every member of the board.

Section 5. Quorum of Committees

Three members of any of the foregoing committees shall constitute a quorum. Meetings of any committee shall be called by the secretary whenever requested to do so by the chairman of the committee, by the president of the board, or by the president of the college.

Time and Place of Meeting

The Executive Committee shall meet regularly on the last Friday of each month at 10 A.M. All committee meetings shall be held at the office of the board, unless otherwise directed by the chairman of the committee. The place of meeting shall be indicated in the notice.

Section 6. Duties of Executive Committee

The Executive Committee shall, when the board is not in session, arrange for the execution of orders and resolutions not otherwise specifically committed or provided for. It may fill vacancies in the faculty occurring during a recess of the board, and, in accordance with the general policy of the board, shall have the care and direction of matters pertaining to the welfare of the college, and especially shall discharge such duties as the board may assign to it from time to time. It shall make formal report of its actions to the board at its next regular meeting. The president of the board shall be chairman of the Executive

Committee unless he finds it inconvenient or inexpedient for him to act. In that case the committee shall elect its own chairman.

Section 7. Duties of Committee on Finance and Investment

The Committee on Finance and Investment, acting in accordance with the general policy and under the instructions of the board, shall make or cause to be made investments of all college funds available for investment. This committee, during the intervals between the meetings of the Board of Trustees and of the Executive Committee, shall have authority to change the form of investments of college funds and to make new investments in amounts aggregating, but not exceeding, One Hundred Thousand Dollars ($100,000) without the previous approval of the board, and the committee shall make formal report of all such transactions to the board at its meeting next following. No investment, purchase, or sale for the account of endowment funds of the college, nor any contract concerning the same, shall be made by the treasurer or the business manager without the formal approval of this committee, which shall have supervision of the funds of the college.

The funds of the college shall be grouped as follows:

Classification of Funds

a) Endowment funds

b) Funds for special purposes

c) Building funds

d) Current funds

Hypothecation of Endowment Funds

The endowment funds shall neither be expended nor hypothecated for current expenses, but shall be retained and preserved inviolate. Investments of endowment funds shall be made as heretofore provided by the Committee on Finance and Investment. There shall be no restriction as to the kinds of investments which may be made, except as hereinafter provided, but other things being equal, preference shall be given to securities issued by the federal and state governments, and to obligations issued by cities having over twenty-five thousand inhabitants; to real estate mortgages on improved property, preferably in the state of Illinois and adjacent states, but in no case shall the amount loaned on mortgages exceed 50 per cent of a fair valuation.

Certain Loans Prohibited

No loan shall be made to any trustee, officer, or employee of the college, nor to any religious, fraternal, or charitable organization.

Funds for special purposes shall consist of all gifts, grants, donations, and bequests for special purposes, whose principal and income may be used, and shall be expended or invested in accordance with the terms of the gift.

Building funds shall consist of all gifts, grants, donations, and bequests for the erection and equipment of buildings, and of other moneys and properties appropriated or assigned by the Board of Trustees for that purpose.

The current funds shall consist of income on endowments, tuition receipts and other fees, gifts, grants, or bequests for current purposes, receipts from business and commercial operations of the college, and all other receipts for current use.

Separation of Funds

Endowment funds, funds for special purposes, and building funds, shall not be deposited with or combined in any way with the current funds of the college.

Section 8. Duties of Committee on Budget

The Committee on Budget shall consist of the chairman of the four committees first above mentioned, together with the president of the college, the president of the board, and the secretary and business manager, and shall have supervision over the bookkeeping and the financial records of the college, and shall submit to the board at the regular April meeting for its consideration and approval a budget for the year commencing on the first day of the following July. The budget submitted shall include an itemized statement of the probable income of the college available for its expenses, and shall indicate the sources from which the income is to be derived. It shall also give an itemized list of the estimated expenses for the year, showing in detail the salaries to be paid and the persons to whom payable, and separating other current expenses and expenses for books and equipment by departments. The president of the board shall be chairman of this committee.

The budget, when approved by the board, shall be the authority for incurring expenditures for the departments included therein. It shall be the duty of the president of the college and the business manager, acting as a committee on expenditures, to make distribution of such budget appropriations as are general by authorizing expenditures within the limits of such appropriations, subject to the following procedure:

Requisitions upon authorized budget appropriations shall be made by the administrative officers of the college and heads of departments for materials, supplies, services, and expenses before any expenditure is incurred, and shall be sent to the president and the business manager for approval. No requisition shall be approved which exceeds the amount of the appropriation available without reference to the Committee on Finance and Investment. The business manager shall give effect to the approved requisitions either directly or indirectly.

Section 9. Duties of Committee on Instruction

The Committee on Instruction shall consider all changes in the instructional staff proposed by the president of the college, and shall make recommendations to the Board of Trustees regarding the members of the instructional staff, specifying the terms of their employment, in accordance with the approved budget. It shall also be the duty of this committee to examine the system of instruction, educational management, rules, discipline, and all other matters pertaining to the educational problems of the college, and to report and make recommendations thereon to the board.

Section 10. Duties of Committee on Buildings and Grounds

The Committee on Buildings and Grounds shall exercise supervision over the care and control of all buildings, grounds, and equipment of the college. It shall once a year, or oftener if necessary, inspect said buildings, grounds, and equipment, and report to the trustees the condition of the same, recommending such expenditures as in its judgment should be made to keep them in good condition. Report of its inspection shall be made at the January meeting of the board in order that its recommendations may be considered by the committee preparing the annual budget. It shall be its duty to see that the buildings and property of the college are adequately insured.

The committee shall investigate and determine the need for new buildings, and shall report to the board, recommending suitable sites. It shall be responsible for the preparation of plans and specifications of such new buildings as the board may determine upon; it shall call for bids, and shall recommend to the board for approval the contractor, or contractors, who, in its opinion, shall be awarded the contract for any construction authorized.

Section 11. Duties of Committee on Audit

The Committee on Audit shall consist of five members of the board, not including the treasurer and members of the Committee on Finance and Investment, and shall arrange for and supervise the annual audit of the books and securities of the college by a firm of public accountants. A written report by said committee of its examination shall be made at the regular meeting of the board in October.

ARTICLE IV. PRESIDENT OF THE COLLEGE

Section 1. Duties of President of College

The president of the college shall be a member of the Board of Trustees ex officio, and shall be the head of all educational departments of the college, exercising such supervision and direction as will promote their efficiency. He shall preside at the meetings of the faculty and shall be the official medium of communication between the faculty and the Board of Trustees, and between the students and the Board of Trustees.

He shall recommend to the board through the Committee on Instruction all promotions and appointments for the faculty.

He shall be responsible for the discipline of the college and for carrying out all measures officially agreed upon by the faculty concerning matters committed to them by the board, and for executing such measures concerning the internal administration of the college as the Board of Trustees may enact.

Section 2. Annual Report of President

He shall make an annual report to the Board of Trustees of the work and condition of the college, and from time to time shall give to the board reports upon the condition of the college, and shall present for their consideration such measures as he shall deem necessary or expedient for its welfare.

Section 3. Acting President

In case of vacancy in the office of the president of the college, or of the absence of the president, or of his inability to serve, the board may appoint an acting president of the college.

ARTICLE V. THE FACULTY

Section 1. The faculty shall consist of the president of the college, the deans of the college, and the officers of instruction, classified as follows: the professor, the associate professor, the assistant professor, the instructor, and the assistant. Only persons of the rank of instructor and upwards shall be entitled to vote at meetings of the faculty. Assistants who are appointed for at least one year may attend the meetings and take part in the deliberations, but shall not vote.

Section 2. The faculty shall meet monthly during the college sessions, and shall appoint a secretary who shall keep a record of their proceedings. They shall make such rules of procedure and provide for such committees as may be required.

Section 3. The faculty shall prescribe, subject to approval by the Board of Trustees, requirements for admission, courses of study, conditions of graduation, the nature of degrees to be conferred, rules and methods for the conduct of the educational work of the college, and shall recommend to the board candidates for degrees, persons to receive the award of fellowships, scholarships, and prizes, and candidates for honorary degrees, and shall investigate all cases of misconduct of students, or violations of rules of the college by students, and through the president and deans shall administer such discipline as the circumstances require. They shall prescribe rules for the regulation of student publications, athletics, intercollegiate games, musical, dramatic, and literary clubs, and other student affairs.

ARTICLE VI. AMENDMENTS

These by-laws may be amended or repealed at any regular meeting of the board by a vote of two-thirds of all the members present, provided a majority of the trustees shall be present and participating in the meeting, previous notice of the nature of any proposed amendment having been given at least one regular meeting before action thereon shall be taken.

ARTICLE VII. FORMER BY-LAWS

All former by-laws are hereby repealed.

APPENDIX

WISCONSIN TRUST LAWS AS TO INVESTMENTS FOR TRUST FUNDS

CHAPTER 96

Trust funds; investment; securities; bonds. SECTION 2100*b*. 1. Every executor, guardian, or trustee, except where it is otherwise expressly directed by the will or instrument of trust, if any, may invest trust funds in bonds of the United States, and also in the bonds of any state of the United States, except the states of Nevada and Wyoming, and except also the present territories of the United States (and such territories shall continue to be excepted after admission to statehood); in the bonds which are a direct obligation of any city, town, village, county, or school district in the state of Wisconsin, and also in the bonds which are a direct obligation of any city in any other of the states included herein, having a population of not less than twenty-five thousand and also in the bonds which are a direct obligation of any county in any other of the states included herein having a population of not less than thirty-five thousand, provided that such city or county shall not have defaulted in the payment of any of its bonded indebtedness during ten years immediately preceding such investment, and provided further that the existing indebtedness of any such city or county be restricted under the laws of the state wherein it may be situated, to a sum in the aggregate not exceeding five per centum on the value of the taxable property therein, to be ascertained by the last assessment for state and county taxes previous to the incurring of such indebtedness; in the paid-up stock of any building and loan association organized under the laws of this state; in the bonds of the federal or joint stock land banks authorized by the federal farm loan act approved July 17, 1916; in the mortgage bonds of any steam railway or railroad corporation in the United States owning and operating not less than five hundred miles of track, which has paid dividends upon its entire capital stock for ten years immediately preceding such investment; in first mortgage bonds of any public utility corporation as defined in section 1797*m*, 1 of the statutes, or any street railway corporation, operating in cities in this state with a population of ten thousand or over, the gross earnings of which from operation of the property covered by the mortgage, for each of five fiscal years next preceding such investment, annually amount to at least six times the annual interest charges on all of its first mortgage indebtedness, and the net earnings of which from operation of the property covered by the mortgage, for each of five fiscal years next preceding such investment, above operating expenses including depreciation, maintenance and taxes, annually amount to not less than ten thousand dollars, and are at least two and one-half times the annual interest charges on all of its first mortgage indebtedness, provided that such mortgage on such public utility or street railway is a closed mortgage, and shall have been outstanding at least five years, and does not exceed in amount one-half of the value of the physical property covered by such mortgage, and provided further that such public utility or street railway bonds shall mature not later than ten years from the date of investment of such trust funds therein under this section; in obligations secured, whether alone, or in combination with other obligations on a parity therewith, by first real estate mortgages, or trust deeds, on improved farm property or improved urban property (other than public utility or street railway property except as herein provided) in this state and adjoining states, the amount of which mortgages, or trust deeds, does not exceed one-half of the actual value of the property covered thereby; and in promissory notes, which are amply secured by pledge of any of the bonds, real estate mortgages, or securities in which investment is hereinbefore authorized.

2. However, the proportion of any one trust fund that may be invested by an executor, guardian, or trustee in notes, bonds, or other securities in which investment is authorized by this section, the value of which is dependent upon the same persons, firms, associations of public or private corporations, shall be subject to limitations as follows:

a) When the trust fund exceeds two thousand but does not exceed five thousand dollars, fifty per cent thereof, unless the investment is in obligations secured by a first real estate mortgage;

b) When it exceeds five thousand but does not exceed twenty thousand dollars, forty per cent thereof, unless the investment is in obligations secured by a first real estate mortgage the amount of which does not exceed six thousand dollars;

c) When it exceeds twenty thousand but does not exceed fifty thousand dollars, thirty per cent thereof;

d) When it exceeds fifty thousand dollars, twenty per cent thereof.

3. Nothing herein contained shall be construed to affect the power or jurisdiction of any court of the state of Wisconsin in respect to trusts and trustees, nor to affect any powers or authority as to investments conferred by will or other instrument of trust.

4. Nothing in this act contained shall affect any investment made prior to the enactment hereof or affect any rights or interests established, accrued, or created thereunder or affect any suit or action pending when this act becomes effective. (*1903 c. 317 s. 1, 2; 1905 c. 284 s. 1, 2; Supl. 1906 s. 2100b; 1907 c. 118; 1909 c. 462; 1915 c. 536; 1915 c. 635 s. 3; 1917 c. 158; 1919 c. 228, 469; 1919 c. 630 s. 2.*)

CHAPTER 185

Trust funds; person holding prohibited from dealing in margins. SECTION 4539*m*. Any person engaged in the business of receiving deposits of money for safe-keeping, any officer or employee of any bank, banking company, or trust company, any executor, administrator, guardian, trustee, or receiver, or any other person holding property or money in any manner in a trust capacity, who shall buy, sell, deal, or traffic in any goods, stocks, grains, or other property or article of commercial barter by making or requiring any deposit, payment, or pledge of any margin or of any money or property to cover future fluctuation in the price of such goods, stocks, grains, or other property so bought, sold, dealt, or trafficked in, shall be punished by imprisonment in the state prison not more than ten years, nor less than one year. (*1909 c. 347.*)

CHAPTER V, BY-LAWS OF REGENTS (UNIVERSITY OF WISCONSIN)

TRUST FUNDS

SECTION 1. The State Treasurer shall open two special accounts of the University, the first of which shall be called "The University Trust Funds"; and the second, "The University Trust Funds Income." All moneys received on account of the principal of any trust fund shall be credited to the account designated "The University Trust Funds," and all moneys which shall be invested from or on account of the said funds, or otherwise lawfully disbursed from the principal thereof, shall be debited to the said account, so that the balance thereof on the books of the State Treasurer shall at all times disclose the actual cash on hand belonging to the principal of said funds. There shall henceforth be credited to the account designated "The University Trust Funds Income," as the same shall be received by the State Treasurer, all interest, dividends, or other income produced in any form by or from any securities or investments of the said "University Trust Funds." When loans or investments shall be made as hereinbefore provided, a certificate of the amount, and of the particulars thereof, shall be made by the Committee on Trust Funds to the Secretary of State, who shall issue his warrant on the State Treasurer therefor, mentioning the same as a disbursement from "The University Trust Funds"; and there shall at the same time be delivered to the State Treasurer, for his custody as provided by law, all securities and papers relating thereto taken for such loan or investment. When any loan shall be paid, or the principal of any investment realized or reimbursed in full, the State Treasurer shall at once certify the fact, with proper description of the security discharged, to the Secretary of the Board, who is authorized thereupon to execute on behalf of the Regents of the University any proper satisfaction, discharge, or acquittance which may be necessary to release any security upon the public records or otherwise; and to make any assignment, transfer, or reconveyance which shall be requisite or convenient for that purpose on the part of the Regents of the University of Wisconsin; and the Secretary is authorized thereafter to affix thereto, when necessary, the corporate seal of the University as the act of the Regents, and shall report thereupon immediately to the Chairman of the Committee on Trust Funds.

Whenever the Regents of the University shall receive by gift, bequest, or other donation any income-producing fund they shall certify and pay over the amount thereof to the State Treasurer who shall credit the same to the principal of the account of "The University Trust Funds" and the same shall become a part of the principal of said account and all income derived therefrom shall be likewise credited to "The University Trust Funds Income"; and at the time of so certifying a duplicate thereof shall be sent to the Secretary of State, in order that he may make the proper entries upon his accounts. At the same time the Secretary of the Board shall open proper accounts on the books of the University, as in cases before provided for.

At the close of the 30th day of June in each year, the State Treasurer shall make a statement showing the total amount received by him and credited to the account of "The University Trust Funds Income" during the fiscal year ending on that date, with the particulars thereof in respect to dates, amounts, and respective securities or investments from which the same was derived, and shall transmit the same to the Secretary of the Regents, who shall thereupon make the proper entries as hereinafter directed. The State Treasurer shall likewise at the same time make a separate account showing the balance on hand at the beginning of the fiscal year in the account of "The University Trust Funds," the amount received during the year to the credit of such account and the amount debited thereto, with the particulars in either case of dates, amounts, and the respective sources from which receipts were derived or the purposes for which disbursements were made; and shall also furnish at the same time a list of the securities and investments in his hands with the balance of the principal thereof remaining.

SECTION 2. The Secretary of the Board shall keep an account entitled "The State Treasurer's University Trust Funds," and an account entitled "The State Treasurer's University Trust Funds Income," both of which shall be cash accounts showing the true state of the moneys remaining in the hands of the Treasurer on account of the Trust Funds and all the moneys received as income therefrom; and shall be entirely separate and apart from the general account of the State Treasurer with the University for receipts and disbursements on account of the University's general income. The Secretary of the Board shall also keep an account designated as "The Trust Funds Investments," to which shall be charged the principal sums invested on account of the loan of the trust funds, or other investments thereof, for income and to which shall be credited the payments received on account of the principal thereof from time to time. Whenever any sums which have been invested shall be repaid on account of principal, the amount thereof will be debited to the State Treasurer's "University Trust Funds" and credited to the account of "Trust Funds Investments," so specifying particulars that the latter account shall always show the several investments and the respective amounts of each thereof. Whenever receipts are made on account of the principal of any of the trust funds therein by realization of assets not previously entered in money account, or by further donations, the amount thereof shall be charged to "The State Treasurer's University Trust Funds" and credited to the proper trust fund account. Any disbursements, or loss, on account of the principal of any of said trust funds shall be credited to the State Treasurer's account and debited to the proper trust fund. If such loss shall consist in the failure to collect any investment, the amount thereof shall be apportioned to and debited to the several trust funds in accordance with the relation of the principal of each to the aggregate of the whole, as hereinafter provided for apportionment of income, except in such cases as the same shall be taken from the income and charged to "The University Trust Funds Income" by order of the Board.

Upon the receipt of the State Treasurer's statement made at the close of the 30th day of June, of each year, the Secretary shall charge to "The State Treasurer's University Trust Funds Income" the net amount of annual income derived from all the investments of the trust funds, and shall at the same time apportion and credit to the several income accounts of the several trust funds such share of the total net income as the amount of principal of each of said trust funds, as shown by the balance thereof on the first of the fiscal year then closed, shall bear to the aggregate of the principal of all the trust funds on that date, due computation being entered on the journal. Payments made out of the income of the several funds shall then be debited to such respective fund income credited upon warrant drawn, to the "State Treasurer's University Trust Funds Income," so that the balance standing to the debit of the latter account will always be equal to the aggregate of the balances standing to the credit of the several trust funds income accounts, and the balance standing to the debit of "The State Treasurer's University Trust Funds" and to the debit of "The State Treasurer's University Trust Funds Income" will always show the balance of moneys in his hands belonging to the University's Trust Funds, and the produce thereof, and thus be kept distinct and separate from the general accounts of the University.

SECTION 3. Payments from the income of each of the several trust funds mentioned in section 1, except the Adams Fellowship Fund, shall be made annually in accordance with the law governing the respective fund as hereinafter provided; but no payment shall be made until the income shall have been realized and, upon the statement of the State Treasurer, credited to the proper income account. Such part of the income derived on account of the Charles K. and Mary M. Adams Fellowship Fund, as required by the wills by which said fund was bequeathed, shall be immediately transferred to the capital of said fund, and for that purpose immediately upon the receipt thereof the proper amount shall be certified to the Secretary of State who shall draw his warrant for the transfer thereof from "The University Trust Funds Income Account" to "The University Trust Funds" and proper entries shall be made by the Secretary upon the accounts aforesaid on the books of the University to show the same by crediting the proportionate share of income accruing to that fund to the capital of said funds by debiting the "State Treasurer's University Trust Funds" with the amount thereof.

SECTION 4. All loans and investments of moneys belonging to the trust funds shall be made by the Committee on Trust Funds from time to time as moneys may be in the hands of the State Treasurer therefor, and the same shall be certified to the Secretary of State in the manner required for the certification of accounts so that the proper warrant may be drawn therefor upon the Treasurer. For this purpose, the Committee on Trust Funds may make such certification at any convenient time and obtain the money when necessary and they shall promptly place in the custody of the State Treasurer all securities, abstracts and other papers received for every loan or investment. Every such transaction shall be entered in the recorded minutes of the Committee on Trust Funds and reported at the next following meeting of the Board of Regents.

All mortgages taken to secure loans, and the transfer of all collateral securities for loans, shall be made to "The Regents of The University of Wisconsin." The Committee on Trust Funds is also authorized, at any time when in their discretion it shall be to the best interests of the trust funds, to sell to any purchaser, upon such terms as they shall deem fit, any properties, whether real estate or personal, belonging to any of the trust funds of the University; and also to sell any securities held by investment of the trust funds, or any part thereof; and also, to compound and settle any loans in which any of the trust funds are invested, or any debt due on account of the said trust funds; and in any and every such case, they may, by resolution entered on their minutes, require and authorize the President and Secretary of the Board to execute and deliver a proper conveyance, transfer, assignment, release, and satisfaction, or other instrument requisite to give full effect to their action.

Section 5. The provisions of this by-law relate only to the trust funds of the University created for production of income and not to gifts, in any form, where it is directed or in any way provided that the principal of the gift shall be expended or bestowed either during the current year or within any short period thereafter. All such gifts or donations in any form, the principal of which is to be expended shall be deposited with the current receipts and administered by the Committee on Trust Funds.

TRUST FUNDS AND THEIR MANAGEMENT

(From chapter 17)

University Fund. SECTION 248. All moneys paid into the treasury on account of the capital of the University Fund shall be and remain a separate and perpetual fund as required by the constitution; and the interest derived therefrom and from unpaid balances of purchase money on sale of University lands and all other revenues derived from the University lands shall constitute the University Fund income.

Agricultural College Fund. SECTION 249. 1. All moneys paid into the treasury on account of the sales of Agricultural College lands shall be and remain a separate and perpetual fund, the capital of which shall continue forever undiminished, to be called the Agricultural College Fund; and the interest derived therefrom and from unpaid balances of purchase money on sales of such lands and all other revenues derived from such lands shall constitute the Agricultural College Fund income. If any portion of such fund shall by any action or contingency be diminished or lost, the Secretary of State shall add to the next state tax to be levied thereafter a sum sufficient to replace the same, to be, when collected, credited to said fund.

2. If for any year the income from the Agricultural College Fund is less than five per centum on the principal, the Regents of the University are authorized and required to transfer from the University Fund income to the Agricultural College Fund income an amount necessary to meet the difference between the interest actually received and the amount which would have been yielded had the income been at the rate of five per centum.

In what made. SECTION 258. 1. The said commissioners of the public lands shall, in their discretion, invest the moneys belonging to the School Fund, the University Fund, the Agricultural College Fund, and the Normal School Fund, from time to time as such moneys may be paid into the treasury, keeping separate the investments of each fund, in the following-named stocks and loans, but in no other manner, to wit:

1) In the purchase of the bonds of this state, to be replaced by certificates of indebtedness as hereinafter provided.

2) In loans to school districts in the state, or to the school directors of any town therein in which the township system of schools exists, as hereinafter provided, for the purpose of erecting school buildings or refunding their indebtedness, but for no other purpose.

3) In approved mortgages on agricultural lands as provided in section 258*m* of the statutes.

3*a*) In county bonds issued under the authority conferred by section 697, 60 of the statutes.

4) In the bonds of the United States, Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, Ohio, Michigan, Illinois, and Iowa, and in the bonds of cities, villages, towns, and counties of this state issued pursuant to law since the adoption of the amendment to section 3 of article XI of the constitution of this state; all such bonds to be deposited with the State Treasurer.

5) In loans to towns, villages, cities, counties, and boards of education, duly incorporated as such, of any city within this state, as hereinafter provided; and every such town, village, city, county, and board of education, is empowered to borrow of said commissioners, from said funds or either of them, such sum or sums of money, for such time and upon such conditions as may be agreed upon between said commissioners and the town, village, city, county, or board of education applying for a loan, subject, however, to the limitations, restrictions, and conditions hereinafter set forth.

2. The preference in investing the trust funds shall be given to the loans provided for in subdivisions (2), (3) and (3*a*) of subsection 1 in the order named.

INDEX

INDEX

A

Accountant, certified public
  Audit by, 53
  Certificate of, 127

Accounting
  For auxiliary departments, 89
  For bookstore, 90
  For buildings in course of construction, 64
  For current operations, 66
  For dining-halls, 90
  For dormitories, 90
  For funds for special purposes, 61
  For physical plant, 55, 63
  For sundry receipts and disbursements, 91
  For trust funds, 58
  System for endowed institutions, 6, 58

Accounts
  Cash book, 96
  Classification of, 91
  Closing, 92
  Journal, 96
  Ledger, 59, 62, 92, 97
  Loose-leaf and bound book, 101
  Student, 99
  Supervision and keeping of, by business manager, 181

Administrative officers, reports of, 41

Alumni organizations, 17

Amendments to By-Laws, 193

Amherst College, 5

Amortization
  Definition of, 73
  Of premium, 71

Annual Report of Treasurer, 119

Annuities, Schedule VI, 155

Annuity
  Funds subject to, 50
  Investments, report of, 125
  Investments, Schedule II, 148

Association of Colleges and Secondary Schools of the Southern States, 15

Audit
  Annual, 53
  Committee on, 190

Auditor, Certificate of, 127

Auxiliary departments
  Accounting for, 89
  Disbursements for, 21
  Report of operation, 124

B

Balance sheet
  Arrangement of, 107
  Table I, 128

Bond, surety
  Business manager, 183
  Officers and employees, 183
  Treasurer, 179

Bookkeeping, double entry system of, 96

Books of account needed, 96

Bookstore
  Accounting for, 90
  Disbursements for, 22
  Receipts from, 10
  Table VII, 138

Bound book records, 101

Brown University, 5

Budget
  Accounts, 83
  Approval of, 83
  Classification of expenses, 75
  Classification of income, 68

Classification of recommendations, 78
Closing of, 88
Committee on, 83, 188
Comparison of estimated income and expenditures, 81
Comparison with income received previously, 75
Control, 67, 83, 88
Expenditures, 20
Methods of estimating income, 70
Principles of making, 88
Revision, 85
Surplus, 87
System, 48, 67

Budget—appropriations
Classification of, 75
For administration and general expense, 79
For care and maintenance of buildings, 79
For instruction, 78
For special purposes, 80
Summary (tabulated), 81

Budget—estimates of income
From endowment investments, 70
From gifts, 73
From miscellaneous sources, 74, 80
From student fees, 70
Provision for contingent fund, 83
Summary (tabulated), 80

Buildings
Accounting for, in course of construction, 64
Additions to, 125

Buildings and equipment
Funds, Schedule VII, 157
Funds, Temporary Investment of, Schedule IV, 151

Buildings and Grounds, Committee on, 189

Buildings, grounds, and equipment
Schedule III, 149

Bulletin, Commissioner of Education, 1

Bureau of Education, 11, 14

Business manager
Duties of, 181
Endowed College, 174
Surety bond of, 183

By-Laws, 173
Endowed College, 176
Regents of University of Wisconsin (Appendix), 197

C

Capital expenditures, 18, 19

Card system, 99

Carleton College, 5

Cash book, receipt, 96

Cash, record of, 63

Certificate of Public Accountant, 127

Charter, 171

College of Liberal Arts
Analysis of Income and Expense, Table IV, 135
Expense, Table III, 133
Income, Table III, 131
Physical Plant, Operation and Maintenance of, Schedule XI, 163
Summary, Table III, 134

Commissioner of Education
Bulletin of, 1
Publications of, 3

Committee
Executive, 185
On Audit, 190
On Budget, 83, 188
On Buildings and Grounds, 189
On Finance and Investment, 186
On Instruction, 189

Committees of Board
Appointment of, 184
Minutes of, 185
Personnel of, 184
Quorum, 185
Standing, 184
Time and place of meeting, 185

Contingent fund, reserve for, 83

Cornell University, 4

Current operations
- Accounting for, 66
- Bookstore, 125
- College of Liberal Arts, 123
- Dining-halls, 124
- Dormitories, 124
- In balance sheet, 110
- Receipts and expenditures of (tabulated), 120
- Result of, 119

Cy Pres, doctrine of (note), 28

D

Deficits, 47

Dining-halls
- Accounting for, 90
- Current operations of, 124
- Disbursements for, 22
- Purchasing for, 95
- Receipts from, 10
- Table VI, 137

Disbursements
- Classification of expenses of operation, 19
- For auxiliary departments, 21
- For bookstores, 22
- For current operations, 18
- For dining-halls, 22
- For dormitories, 22
- For land, buildings, and equipment, 18
- Incurred in raising funds, 22

Dormitories
- Accounting for, 90
- Disbursements for, 22
- Investment of endowment in, 44
- Receipts from, 10
- Result of operation of, 124
- Table V, 136

E

Election
- Of officers, 177
- Special, 178

Endowed College
- By-Laws of, 176
- Organization of, 173
- Staff required for, 175

Endowment
- Accounting for, 60
- Budget estimate of income from, 70
- Definition, 24
- For chairs, 28
- Funds, Schedule V, 152
- Gifts to, 15, 29
- Hypothecation of, 46, 186
- Improper use of term, 24
- Income on, 10, 14
- Increase in, 3
- Insidious use of, for current purposes, 49
- Investment of, 32, 62
- Investment of, Schedule I, 144
- Loans of, prohibited, 42, 187
- Preservation of principal, 32
- Record of gifts for, 60
- Restricted, 27
- Source of, 15, 26
- Source of income, 1
- Subject to annuity, 50
- Treatment of pledges and subsubscriptions to, 51
- Trustees responsible for investment of, 39, 51
- Undesirable investments of, 43
- Unrestricted, 27
- Value placed on gifts to, 29

Equipment
- Building, 19
- Scientific, 19

Executive Committee, 185

F

Faculty, by-law pertaining to, 192

Fees
- Advance payment of, 13
- Breakage, damage and loss, 10, 12
- Budget estimate of income from, 70
- Graduation, 12

Incidental, 10
Laboratory materials and supplies, 10, 12
Library, 10, 12
Matriculation, 12
Proportion of, to cost of education, 10
Source of income, 1
Tuition, 10

Finance and Investment, Committee on, 186

Fines, 13

Floating debt, 47

Funds
Accounting for special, 61
General, for Designated Purposes, Schedule IX, 159
Invested separately or as a whole, 37
Special, for Designated Purposes, Schedule VIII, 158
Subject to annuity, 50

G

General Education Board, 4

Gifts
Budget estimates of income from, 73
Classification of, 15
For endowment, 60
From John D. Rockefeller, 4
Increase, in for endowment, 3
Kinds of, 16
Methods of obtaining, 15
Paid in, Table X, 141
Receipts from, 10, 15
Report of, 112, 126
Source of income, 1, 15
Value placed on, 29

Graphs
Showing distribution of income, 55
Statistical, 104

Grinnell College, 5

H

Harvard College, 2, 3

Harvard University, 4, 5

Heat, Light, Power, and Water, Table IX, 140

Hypothecation of endowment, 46, 186

I

Income
Budget classification of, 68
Budget estimates of, 70
Comparison of, 75
From endowment, 14
From gifts, 15
From student fees, 10
Source of, 1

Indiana State Teachers' Training Board, 14

Instruction, disbursements for, 21

Investments
Accounting for, 35, 58
Committee on, 186
Diversification of, 34
Funds for special purposes, 62
Hypothecation of endowment, 46
Principles of making, 32

Procedure in making, 37
Suitable kinds of, 32
Trustees responsible for making, 39, 51
Undesirable, 43

J

Johns Hopkins Hospital, 34
Johns Hopkins University, 34

L

Land, buildings, and equipment, disbursements for, 18, 19

Ledger accounts, balancing and closing, 92

Loans prohibited, 42, 187

Loose-leaf records, 101

M

Meetings
Annual, 176
Call for special, 176
Notice of, 176

Order of business, 177
Place of, 176
Quorum, 177
Regular, 176
Rules of order, 177
Special, 176

N

North Central Association of Schools and Colleges, 14

O

Officers
Election of, 177
Surety bonds of, 183
Origin of colleges and universities, 2

P

Pay-roll register, 99
Physical plant
Accounting for, 63
Definition, 54
Depreciation of, 56
Insurable value, 56
Inventory, 56
Operation and maintenance, disbursements for, 20, 54
Operation and Maintenance, Schedule XI, 163
Pledges, treatment of endowment, 51
Premium, amortization of, 71, 73
President of board of trustees, duties of, 178
President of college
Acting, 191
Annual report of, 191
Duties of, 191
Purchasing, 93

R

Real estate
Provision for depreciation of, 30
Value placed on gifts of, 30
Receipts
From bookstore, 10
From dining-halls, 10
From dormitories, 10
From gifts, 10, 15
From income on endowment, 10, 14
From miscellaneous sources, 10
From students, 10
Relative distribution of, in private and public institutions, 1
Sources of, 10
Records
Financial, 96
Statistical, 102, 114
Reports
Contents of, 107
Financial, 41, 92, 105
For trustees, 115
Treasurer's Annual, 119
Requisitions, 83
Reserves Account, Schedule X, 162

S

Salaries, teachers', 4
Salary check, 99
Schedules
I. Investment of Endowment Funds, 144
II. Investment of Annuity Funds, 148
III. Buildings, Grounds, and Equipment, 149
IV. Temporary Investments of Building and Equipment Funds, 151
V. Endowment Funds, 152
VI. Annuities, 155
VII. Building and Equipment Funds, 157
VIII. Special Funds for Designated Purposes, 158
IX. General Funds for Designated Purposes, 159
X. Reserves, 162
XI. Operation and Maintenance of Physical Plant, 163
Explanatory notes on, 167

School of Music
  Report of current operations, 125
  Table VIII, 139
Secretary, duties of, 180
Securities
  Access to, 52, 179
  Annual audit of, 53
  Custody of, 52
Smith College, 5
Special Funds for Designated Purposes, Schedule VIII, 158
Statements, explanatory, 113
Statistical records, 102
Statistical reports, 114, 116
Statistics
  Explanatory, 113
  Graphic representation of, 104
Strictly educational operation, meaning of (note), 11
Student fees, 10
  Advance payment of, 13
  Budget estimate of income from, 70
Students
  Receipts from, 10
  Share of cost of education, 10
Subscriptions, treatment of endowment, 51
Surplus and Deficit Account, Table II, 130

T

Tables
  I. Balance Sheet, 128
  II. Surplus and Deficit, 130
  III. College of Liberal Arts—Income, 131
    College of Liberal Arts—Expense, 133
    College of Liberal Arts—Summary, 134
  IV. College of Liberal Arts—Analysis of Income and Expense, 135
  V. Dormitories, 136
  VI. Dining-Halls, 137
  VII. College Bookstore, 138
  VIII. School of Music, 139
  IX. Heat, Light, Power, and Water, 140
  X. Gifts Paid in, 141
  Explanatory notes on, 164
Taxes, source of income, 1
Tax-supported institutions, reference to, 6
Treasurer
  Annual Report of, 119
  Duties of, 178
  Endowed College, 174
  Surety bond of, 179
Trust funds, file of, 63
Trust Laws, Wisconsin (Appendix), 194
Trustees
  Powers of, 172
  Reports of, 41, 115
  Responsibility of, 39, 51

U

University of California, 1
  Cambridge, 3
  Chicago, 5
  Illinois, 6
  Michigan, 6
  Minnesota, 6
  Oxford, 3
  Princeton, 4
  Virginia, 1
  Wisconsin, 6
University of Wisconsin By-Laws of Regents (Appendix), 197

V

Vice-president, duties of, 178
Voucher check, 98
Voucher register, 98

W

Wisconsin Trust Laws (Appendix), 194

Y

Yale University, 5, 17

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